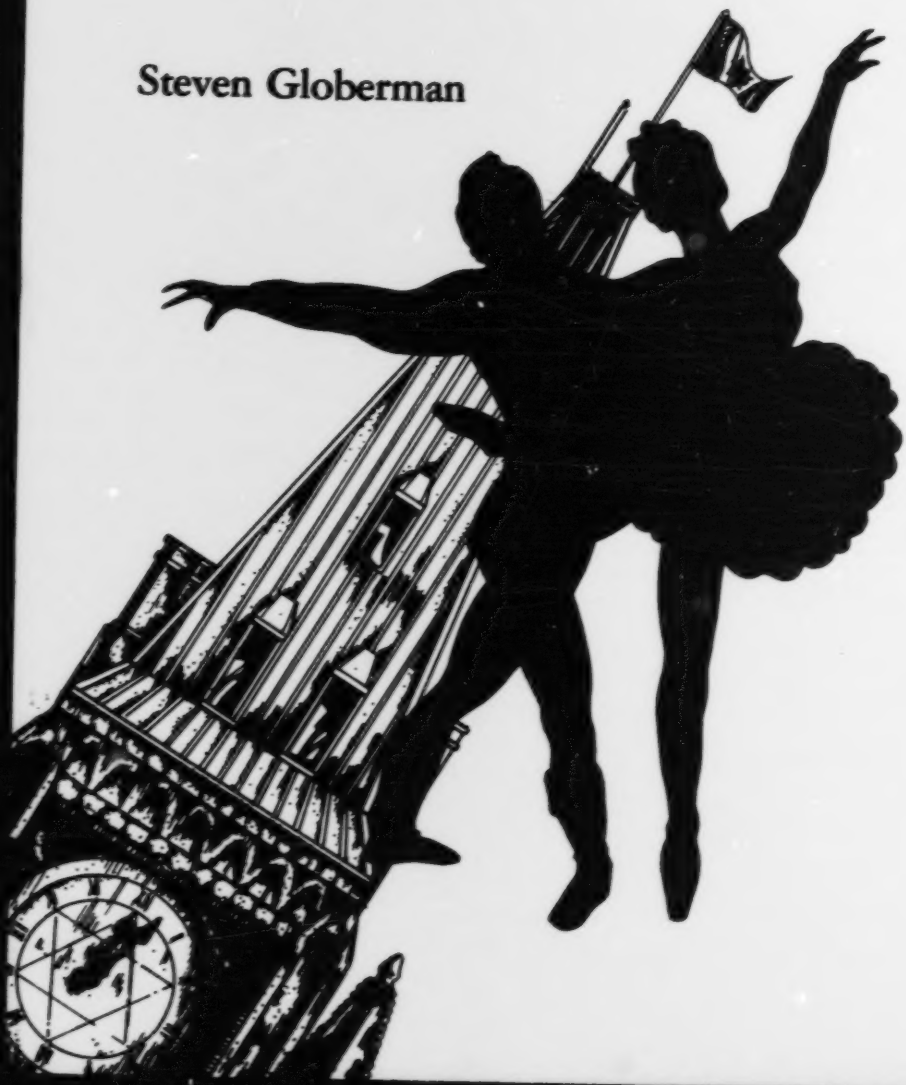
CULTURAL REGULATION IN CANADA

Steven Globerman



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Cultural Regulation in Canada

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by
Steven Globerman

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Foreword

Government involvement in the arts in Canada is almost as old as the country itself. In the 1880s the National Art Gallery was founded on the donations of individuals and private organizations, supplemented by funds from the federal government. Bricks and mortar programs for other public institutions followed. With the introduction of broadcasting and film, the government looked to a new form of action, public corporations, to engage in the delivery of service directly. In 1951, when the Massey-Lévesque Commission recommended a new body to encourage the arts, humanities, and the social sciences, Parliament created the Canada Council to manage public support for culture through an agency with a high degree of independence. The provinces have followed suit with various boards, councils, and grant programs. Today government is a regulator, participant, proprietor, custodian and patron, and public presence is evident in every area of cultural activity.

The latest in a series of commissions, studies, and committees set up to examine the role of government in the arts and culture, the Federal Cultural Policy Review Committee (Applebaum-Hébert) was convened to review the federal government's involvement, to evaluate existing programs, and to advise on the appropriate role and road for the future.

But how does the government evaluate the relative merits of the tools and targets of government assistance in the culture industries? What measurement devices are available to assist policy makers in evaluating the broad and specific forms of government intervention into cultural activities? Professor Globerman, an economist with a background in government regulation, offers his recommendations in this volume. The recent report of the Applebaum-Hébert Committee, the growing debate of appropriate forms of government intervention, and the sizeable portion of the public purse dedicated to the support of an indigenous culture make Professor Globerman's suggestions particularly timely and useful.

Gordon Robertson
President
May 1983

Avant-propos

L'histoire de l'intervention de l'État dans le domaine des arts au Canada est presque aussi longue que celle du pays lui-même. Au cours des années 1880, des dons de particuliers et d'organismes privés auxquels s'ajoutèrent des fonds de l'État ont permis la création de la Galerie nationale. Des campagnes de souscription pour d'autres institutions publiques ont suivi. Avec l'arrivée de la radiodiffusion et du cinéma, le gouvernement s'est tourné vers un autre type d'intervention, soit la société d'État, pour offrir le service directement. Suite à la recommandation de la Commission Massey-Lévesque en faveur de la création d'un nouvel organisme pour favoriser les arts, les humanités et les sciences sociales, le gouvernement a créé le Conseil des arts pour gérer les fonds consentis à la culture par l'entremise d'une agence hautement autonome. Les provinces ont emboîté le pas avec des commissions, des conseils et des programmes de subvention divers. L'État est aujourd'hui réglementeur, participant, propriétaire, conservateur et mécène : sa présence se fait sentir dans l'ensemble de l'activité culturelle.

La dernière d'une série de commissions, d'études et de comités chargés d'examiner le rôle de l'État dans les arts et la culture, soit le Comité d'étude de la politique culturelle fédérale (Applebaum-Hébert), devait étudier la participation du gouvernement fédéral, évaluer les programmes en cours et présenter des recommandations quant au rôle et aux orientations d'avenir.

Mais comment le gouvernement peut-il évaluer les mérites relatifs des mécanismes et des objectifs de l'aide gouvernementale aux industries de la culture? De quels instruments de mesure les décideurs disposent-ils pour les aider à évaluer l'intervention, qu'elle soit générale ou spécifique, dans les activités culturelles? Le professeur Globerman, économiste spécialisé dans la réglementation gouvernementale, présente ici ses recommendations. En raison du récent rapport du Comité Applebaum-Hébert, du débat croissant sur les modes propices d'intervention gouvernementale et de la part non

négligeable du trésor public consacré à l'aide à la culture proprement canadienne, les suggestions fort utiles du professeur Globerman arrivent à point.

Gordon Robertson
Président
Mai 1983

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The Author

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Preface

That the creative process is an arduous one is a lesson well learned by the author in the course of preparing this study. The task of evaluating government intervention into cultural activities was sufficiently daunting that the project, which initially started out as the work of four contributors, ultimately saw only one survivor, the latter holding weakly to his health and mental balance. If nothing else, therefore, this study stands as a minor monument to human endurance. In this respect, recognition must be given to Dr. W.T. Stanbury who endured long delays, in his role as financial sponsor, and repeated critical and editorial responsibilities in his role as manuscript reader. Any success this volume enjoys owes largely to Bill Stanbury's capacity and dedication as a scholar and a sympathetic colleague.

Other colleagues also made valuable contributions that should be noted. In particular, Professors Mark Wexler and Bert Schoner undertook extensive reviews of earlier drafts and made many useful suggestions. Professor Dean Tjosvold provided valuable guidance on the relevance of the social psychology literature to the issue of cultural identity, while two outside readers — Dick Netzer and R.T. Mactaggart — offered helpful comments and insights on other aspects of the manuscript. The author's intellectual debt to his collaborator on other related studies, Mitchell Rothman, is evident throughout this text. Deborah Clements was an inspired and resourceful research assistant at critical junctures of the study, while Ann McCoomb did a thorough editing of the manuscript. And certainly not least important, courteous and efficient word-processing services were provided by Anita Mahoney.

Steven Globerman
August 1982

Summary

This study is concerned with evaluating arguments for government intervention into cultural activities and the consequences of such intervention. While no single definition of cultural activity is universally accepted, we have adopted (as a working definition) the concept employed by the federal government for purposes of economic classification. This definition encompasses the activities of libraries, museums, public archives, heritage resources, films, broadcasting, visual arts (painting, sculpting and, for some, crafts such as basket-weaving, ceramics, and so forth), performing arts (ballet, modern dance, symphony, legitimate theatre, opera and, for some, popular music), literary arts (books, magazines, and periodicals), and multicultural and ethnic organizations.

Just as there is no universally accepted definition of cultural activity, there is no unarguable estimate of the relative size of culture industries in the Canadian economy. A recent estimate by the Federal Cultural Policy Review Committee puts "total recorded cultural expenditures in Canada (excluding formal education) [for 1981–82 in the range of] $7 billion to $9 billion — upwards of $300 for each man, woman and child in the country."[1] By any standard, this represents a substantial amount of economic activity. The culture industries do indeed represent a significant segment of Canada's economic life.

The role of government in Canada's cultural activities is also quite substantial. For example, the Federal Cultural Policy Review Committee estimates that direct federal expenditures on cultural activities in 1981-82 totalled some $1.2 billion — or about one sixth of all the resources devoted to culture.[2] But direct expenditures represent only one way in which the government impacts on cultural activities. Government tax legislation, which provides for allowable tax deductions for investment in Canadian feature films and for contributions made to non-profit arts organizations or cultural institutions, constitutes another significant way in which government directs the flow of economic resources to cultural activities. Bill C-58, the federal law prohibiting tax deductions for advertising on U.S. border radio and television stations and in foreign-owned publications, represents the

obverse to allowable tax deductions for investment in Canadian feature films. Both pieces of legislation (as is the case for all forms of tax expenditures) are designed to encourage a voluntary movement of resources into "Canadian" cultural activities.

Perhaps the fastest growing (and most difficult to quantify) form of government intervention into cultural activities is what might be labelled government regulation. This broad-based form of intervention includes, for example, regulations imposed under the authority of the Canadian Radio-television and Telecommunications Commission regarding the licensing of broadcasting rights and ownership and operation of cable television and Canadian content requirements for radio and television broadcasters. Restrictions on the immigration of foreign performers (imposed by the Department of Employment and Immigration) and on the ownership of Canadian businesses involved in cultural activities (imposed by the Foreign Investment Review Agency) represent other examples of this indirect form of government intervention.

Provincial governments also provide direct and indirect subsidies to cultural activities and regulate aspects of cultural development, although their influence is much less prominent than that of the federal government. The Quebec government has perhaps taken the most activist legislative stance towards cultural matters, including the imposition of restrictions on the number of prints of non-French-language films that can be shown at any one time in Quebec and requirements for public and parapublic institutions to purchase their books exclusively from bookstores whose head offices are in Quebec and that are at least 50 per cent controlled by Canadians residing in Quebec. The various forms of government intervention into cultural activities are reviewed in Chapter 1.

Besides constituting a significant redirection of economic resources away from other activities into the production and distribution of "Canadian" culture, government intervention into cultural activities represents a potential danger to the freedom of expression and unbiased production of information that is essential to the survival of a free society. Canadians are entitled to a justification for accepting the costs and the risks associated with the active cultural intervention pursued by the government. While official and unofficial statements of the government's rationale for intervening in cultural activities have been offered from time to time, close evaluation of these statements provides little basis for accepting them at face value. Indeed, an analysis of the standard arguments offered in support of such intervention suggests that many are intellectually indefensible, while others ignore predictable indirect consequences that can hardly be considered to promote the broad public interest. General economic arguments in support of government intervention into market ac-

tivities are reviewed in Chapter 2, while Chapter 3 exposes and evaluates specific arguments that have been suggested for intervention into cultural activities.

The general economic arguments in support of government intervention into private transactions are largely subsumed under the broad heading of "market failure." Market failure denotes the presence of one or more conditions that preclude the efficient allocation of resources by private transactions. That is, left to its own devices, the free market will either produce "too much" or "too little" of a particular good or service. The broad conditions that potentially give rise to market failure include the inability to exclude non-payers from enjoying the benefits of output purchased by others (i.e., a "free-rider" problem); the existence of "spillover" effects, whereby individuals not directly involved in a transaction are nevertheless affected by that transaction; inadequacy of information so that individuals are not sufficiently well informed to permit them to make rational decisions in light of their preferences; and the existence of economies of scale that may give rise to a condition of "natural monopoly." Where one or more of these conditions exist, it is possible to argue that government intervention might improve the efficiency with which resources are allocated. Of course, government intervention, in attempting to address a source of market failure, may promote inefficiencies of its own. Hence, for government intervention to be warranted, the social benefits must outweigh the social costs when all consequences of such intervention are accounted for.

An additional consideration in weighing arguments for government intervention is the impact of market transactions on the distribution of income. Where segments of the population are, for reasons beyond their immediate control, forced to live at unacceptably low standards, government assistance can be seen as an appropriate way of "centralizing" philanthropic contributions that the more well-off members of society would voluntarily wish to make anyway. While economists argue for the use of broad tax and transfer instruments to redistribute income, politicians tend to favour "targetting" specific transfer programs to specific groups in the population. Indeed, many redistributive schemes in society, such as rent control, exist outside the general tax code.

In recent years, a growing number of economists have argued that the goal of income redistribution underlies a wide variety of government intrusions into free market exchange. However, the redistribution does not go from the well-to-do to the poor but from broad segments of society (including the poor) to a relatively narrow group of well-educated, usually middle-class, politically active, "opinion makers" in society. In the Canadian context, and with respect to cultural intervention specifically, it has been argued that the main ben-

eficiaries have been and continue to be a select group of performers, producers, and technical personnel, while the bulk of the Canadian population has been burdened with higher prices for the cultural services they consume and with a restricted choice of cultural output.

There is certainly no shortage of arguments offered by advocates of government intervention into cultural activities. Unfortunately, most of the main arguments are vague and even tautological, which makes critical evaluation of them difficult. The most "intrinsic" form of argumentation for government intervention into cultural activities maintains that the promotion of culture is necessary for social survival and that state intervention is required to ensure the survival of "artistic markets." Clearly both propositions are required to provide a necessary argument for government intervention. The second proposition is sometimes supported by market failure rationales that we will discuss below. The first is typically stated as an axiom.

If the promotion of culture is necessary for social survival, as interventionists claim, the question that must be answered is why an enlightened society, acting in its own self-interest, would not promote culture voluntarily? This question is typically ignored or else it is dismissed on the basis of an assumed ignorance on the part of the public about the importance of culture. Some interventionists are concerned by the potential for this "meritocracy" argument to degenerate into a claim that some tastes are better than others, an unacceptable basis for government action in a democratic society. They are therefore concerned with demonstrating that broad and largely unsatisfied public support exists for the promotion of cultural activities. This poses a testable hypothesis (largely unsubstantiated) that helps promote examination of their argument, but still leaves the interventionists in need of an explanation of why the market fails to respond to an unsatisfied public demand for culture.

Cultural nationalists tend to narrow the meritocracy argument to a justification for government intervention to promote "Canadian" culture. Specifically, they argue along the lines that "Canadian" culture is required to promote Canada's sense of "identity." Since the concept of Canadian identity is usually undefined, the argument is virtually empty of empirical content. However, cultural nationalists are typically more forthright on what constitutes "Canadian" culture. In practice, the determining criterion is the identity of those individuals involved in the production and distribution of the cultural event. Non-Canadians presumably cannot provide Canadians with the unique insights about the human condition in Canada that other Canadians can. While superficially plausible, this premise, by itself, offers neither a justification for government subsidies to the production of culture by Canadians nor a rationale for blocking the entry of foreign culture into Canada.

In isolated cases, cultural nationalists have appealed explicitly to market failure arguments in support of government subsidies for Canadian-owned cultural businesses and institutions and restrictions on the direct or indirect importation of culture produced by non-Canadians. In one version of the argument, a variety of alleged spillover effects are appealed to as the basis for a presumed failure of the market to produce the "correct" amount of Canadian culture. Upon examination, the relevance of the spillover argument in most cases is fairly speculative. Whether they are anything more than theoretical curiosities, not worth the cost of government intervention, remains to be demonstrated. Moreover, several of the more compelling spillover problems cited appear more appropriately addressed by a strengthening of property rights (e.g., through copyright protection) than by a suppression of the market system.

Another explicit market failure argument raised is that many people are ignorant of the arts and that advertising is not useful in overcoming this ignorance. It is further suggested that the way to deal with this problem is to subsidize more widespread production of the arts, specifically designed to give large numbers of potential consumers and producers firsthand experience of them, thereby justifying government arts funding in pursuit of this objective.

This information argument rests on a dubious proposition that non-attendance at cultural events derives from ignorance about the net benefits of attending; however, there is no direct evidence to support this proposition. Even if one accepts the notion that those unfamiliar with the arts systematically underestimate the benefits they would derive from attending cultural events, it does not necessarily follow that government subsidies to culture are an appropriate policy response. That is, it does not necessarily follow that increasing the availability of performing arts events will promote greater attendance on the part of individuals hitherto showing little interest in the arts. Indeed, surveys tend to show that it is lack of interest rather than lack of opportunity or high ticket prices that accounts for non-attendance at performing arts events. In this case, the primary impact of government subsidies may be to redistribute income from the general taxpayer to frequent spectators at cultural events who, by and large, enjoy above-average incomes and possess above-average educational levels.

A third broad rationale put forward for the existence of market failure in the production of "Canadian" culture is the cost disadvantage that Canadian producers suffer *vis-à-vis* American producers. This disadvantage allegedly derives from the greater scale economies enjoyed by American producers. The latter, in turn, "dump" their output into the Canadian market at prices that Canadian producers cannot afford to match.

The "unfair" competition doctrine as applied to culture has also been applied in protectionist arguments for tariffs as well as for restrictions on incoming foreign direct investment. This protectionist argument relies on a notion that specialization is of limited value as a competitive tool. This notion has been rejected by critics of the domestic tariff and might also be rejected in the production of culture. Specifically, there is substantial evidence that smaller Canadian production units can compete successfully in specialized production markets. While the production of "Hollywood-style" feature films or general interest magazines may suffer from a competitive disadvantage in Canada, it is unclear why such ventures should be promoted at the public expense, any more than Canadians should be expected to subsidize the growing of bananas in Canada.

Proponents of cultural intervention often point to the low incomes of artists as a rationale for government intrusion into cultural activities. The data seem to support an argument that the majority of performers, writers, and other creative artists earn incomes (directly derived from cultural employment) that are below the average for the working population. However, many full-time creative artists are successful in earning incomes that are well above the average for the general population. It can be argued that the many artists who do not realize successful full-time status understand the risks they run in this regard; that is, that the incomes of creative artists are highly skewed with a small number making exceptionally high returns and the majority making substantially smaller returns.

In summary, strong reservations can be raised about the wide assortment of conceptual justifications for government cultural intervention that have been offered in the academic and popular literature. We conclude in Chapter 3 that the burden of proof for cultural intervention rests with the cultural nationalists who, in our opinion, have failed to provide a coherent, let alone a convincing, case for the major protectionist policies that have been implemented by the Canadian government.

Our concern about the ill-founded justification for much of the government's intervention into cultural activities is indirectly supported in a set of case studies described in Chapter 4. The cases include an evaluation of Canadian-content requirements for broadcasters, the Capital Cost Allowance for investments in certified Canadian films, subsidies to the performing arts, and import restrictions on elementary and high school texts. On the basis of available evidence, it would appear safe to conclude that in all cases, cultural intervention has effects (either intended or unintended) that are, if not socially undesirable, hardly contributory to alleviating obvious market failure problems. In this regard, one of the more notable effects involves a transfer of income from the general population to a fairly narrow

segment of the population who enjoy an above-average socio-economic status.

It can be concluded that government intervention into cultural activities has promoted the growth of cultural production in Canada. Whether it has promoted the general welfare of Canadians is far more questionable, particularly where government intervention has involved the suppression of the public's right to consume foreign cultural programming. Where the content of the cultural product produced in Canada is indistinguishable from that of products produced in the United States — as it often is — it is especially difficult to understand the social purpose that is served by government promotion of its production.

Chapter 5 offers a summary of the preceding chapters and some general observations about cultural policy. The most important weakness of cultural policy making in Canada is its focus on operational considerations, that is, how to increase cultural production in Canada, rather than on the more fundamental issue of whether and why there is too little cultural output produced in Canada and by Canadians. There has been virtually no critical examination of the impact of the more prominent forms of government intervention, and fundamental issues related to freedom of choice have been almost totally ignored. Government intervention in culture (as in other activities) spawns increasingly strident calls for more intervention, as previous intervention is itself taken as justification for further interference in free choice. Unfortunately, in the case of cultural activities, those responsible for being opinion leaders are often in the position of promoting their own self-interest by championing Canadian cultural nationalism, while government bureaucrats are in the position of enhancing their power. The prospects for informed and unbiased public policy in this setting are uncertain to say the least.

Notes

[1] See Government of Canada, *Report of the Federal Cultural Policy Review Committee* (Ottawa: Minister of Supply and Services Canada, 1982), p. 63.

[2] *Ibid.*

Abrégé

Cette étude cherche à évaluer les arguments en faveur de l'intervention de l'État dans les activités culturelles ainsi que les conséquences d'une telle intervention. Bien qu'aucune définition de l'activité culturelle ne soit acceptée universellement, nous avons adopté (comme définition opératoire) le concept utilisé par le gouvernement fédéral à des fins de classification économique. En vertu de cette définition, cela englobe les activités des bibliothèques, des musées et des archives publiques ainsi que les ressources du patrimoine, le cinéma, la radiodiffusion, les arts visuels (la peinture, la sculpture et, pour certains, des métiers d'art tels que la vannerie, la poterie, etc.), les arts de la scène (le ballet, la danse moderne, la symphonie, le théâtre légitime, l'opéra et, pour certains, la musique populaire), les arts littéraires (les livres, les revues et les périodiques) ainsi que les organismes multiculturels et ethniques.

Tout comme aucune définition de l'activité culturelle ne fait l'unanimité, il n'existe aucune évaluation incontestable de la taille relative des industries de la culture dans l'économie canadienne. Le Comité d'étude de la politique culturelle fédérale a évalué récemment le total des dépenses déclarées en matière de culture au Canada pour 1981–1982 aux environs de « sept à neuf milliards de dollars, sans compter la formation scolaire, c'est-à-dire plus de 300 dollars par habitant, hommes, femmes et enfants compris »[1]. Peu importe où l'on se place, cela représente une part substantielle de l'activité économique. Les industries culturelles occupent donc une place importante sur la scène économique au Canada.

Le rôle de l'État dans les activités culturelles du Canada est aussi fort important. Par exemple, le Comité d'étude de la politique culturelle fédérale estime qu'en 1981–1982, les dépenses fédérales directes en matière de culture se sont élevées à 1,2 milliards de dollars — ou environ un sixième de toutes les ressources consacrées à la culture[2]. Mais ces dépenses directes ne représentent qu'une des façons dont le gouvernement influence les activités culturelles. Les lois fiscales, qui prévoient des déductions pour des investissements dans des longs métrages canadiens et pour des contributions faites à des

organismes artistiques ou à des institutions culturelles sans but lucratif représentent un autre moyen important par lequel le gouvernement oriente le cours des ressources économiques vers les activités culturelles. La Loi C-58, la loi fédérale qui interdit des déductions d'impôt pour la publicité à des stations de radio et de télévision frontalières américaines et dans les publications étrangères, représente la contrepartie des déductions d'impôt pour les investissements dans les longs métrages canadiens. Les deux textes de loi (comme c'est le cas de tous les types de dépenses fiscales) visent à encourager un apport volontaire de ressources aux activités culturelles « canadiennes ».

Ce qui pourrait être appelé la réglementation gouvernementale constitue peut-être la dimension de l'intervention gouvernementale qui croît le plus rapidement (et qui est peut-être la plus difficile à quantifier). Cette intervention aux multiples facettes comprend, par exemple, les règlements promulgués par le Conseil de la radiodiffusion et des télécommunications canadiennes eu égard à l'obtention de droits de radiodiffusion ainsi qu'à la propriété et à l'exploitation de la télévision par câble, sans compter les règlements sur le contenu canadien qui visent les radiodiffuseurs. Les restrictions sur l'immigration d'artistes étrangers (imposées par le ministère de l'Emploi et de l'Immigration) et sur la propriété des entreprises canadiennes intéressées aux activités culturelles (imposées par l'Agence d'examen de l'investissement étranger) représentent d'autres exemples de cette intervention indirecte de l'État.

Les gouvernements provinciaux offrent eux aussi des subventions directes et indirectes aux activités culturelles, et réglementent certains aspects du développement culturel bien que leur influence soit beaucoup moins prépondérante que celle du gouvernement fédéral. C'est probablement le gouvernement du Québec qui a légiféré le plus activement en matière culturelle en cherchant à imposer des restrictions sur le nombre de copies de films en langues autres que le français qui peuvent être présentées au même moment au Québec, et en exigeant que les institutions publiques et parapubliques achètent leurs livres exclusivement chez les libraires dont les sièges sociaux sont au Québec et qui sont contrôlés dans une proportion d au moins 50 % par des Canadiens habitant le Québec. Les diverses formes d'intervention gouvernementale dans les activités culturelles font l'objet du chapitre 1.

En plus de constituer une réorientation sensible des ressources économiques vers la production et la diffusion de la culture « canadienne » aux dépens des autres activités, l'intervention gouvernementale dans les activités culturelles représente un danger éventuel pour la liberté d'expression et la production d'information impartiale essentielle à la survie d'une société libre. Les Canadiens

ont le droit de savoir ce qui les justifie d'accepter les coûts et les risques que comporte l'intervention culturelle active pratiquée par le gouvernement. Mais, bien que le gouvernement ait à l'occasion publié des déclarations officielles et officieuses sur les raisons de son intervention dans les activités culturelles, un examen attentif de ces déclarations ne permet pas de voir pourquoi on les accepterait d'emblée. À vrai dire, une analyse des arguments classiques présentés à l'appui de cette intervention fait apparaître que plusieurs ne tiennent pas debout, tandis que d'autres font fi des conséquences indirectes prévisibles qui sont loin de favoriser l'intérêt public en général. Les arguments économiques d'ordre général en faveur de l'intervention du gouvernement dans les activités du marché font l'objet du chapitre 2, tandis que le chapitre 3 présente et évalue des arguments précis qui ont été mis de l'avant en faveur de l'intervention dans les activités culturelles.

Les arguments économiques d'ordre général à l'appui de l'intervention du gouvernement dans les transactions privées sont subsumés pour une bonne part sous le titre général de « échec du marché ». L'échec du marché indique la présence d'une ou plusieurs conditions qui empêcheraient l'affectation efficiente des ressources grâce à des transactions privées. C'est-à-dire que, laissé à ses propres mécanismes, le marché libre produira « trop » ou « trop peu » d'un bien ou d'un service particulier. Les conditions générales qui peuvent éventuellement amener l'échec du marché comprennent l'impossibilité d'exclure les non-payeurs de la jouissance des avantages des productions achetées par d'autres (c'est-à-dire un problème de « parasites »); l'existence de retombées en vertu desquelles les particuliers qui ne participent pas directement à une transaction sont néanmoins affectés par elle; un manque d'information qui empêche les individus de jouir de renseignements suffisants pour leur permettre de prendre des décisions rationnelles à la lumière de leurs préférences; et l'existence d'économies d'échelle qui peuvent donner lieu à une condition de « monopole naturel ». Lorsqu'une ou plusieurs de ces conditions existent, il est possible de soutenir que l'intervention du gouvernement pourrait améliorer l'efficacité dans la répartition des ressources. Par contre, l'intervention du gouvernement risque, en tentant de s'attaquer à l'échec du marché, de favoriser ses propres inefficacités. Par conséquent, pour que l'intervention du gouvernement soit justifiée, les avantages sociaux doivent dépasser les coûts sociaux lorsque toutes les conséquences d'une telle intervention sont prises en considération.

Il faut aussi tenir compte, lorsqu'on évalue les arguments en faveur de l'intervention gouvernementale, des répercussions commerciales sur la répartition des revenus. Lorsque certaines parties de la population se voient forcées, pour des raisons qui leur échappent, de

vivre à des niveaux inacceptablement bas, l'aide du gouvernement peut être considérée comme un moyen approprié de « centraliser » les contributions philanthropiques que les membres de la société mieux nantis souhaiteraient de toute façon faire bénévolement. Tandis que les économistes prônent le recours à des instruments d'imposition et de transfert généraux pour redistribuer les revenus, les politiciens tendent à préférer destiner certains programmes de transfert spécifiques à certains groupes cibles dans la population. En fait, plusieurs mécanismes de redistribution dans la société, tels que le contrôle des loyers, existent hors du cadre fiscal général.

Depuis quelques années, un nombre croissant d'économistes ont soutenu que l'objectif de redistribution des revenus sous-tend une grande variété d'intrusions de l'État dans le libre échange sur les marchés. Toutefois, la redistribution ne se fait pas des bien-nantis vers les pauvres, mais plutôt de vastes secteurs de la société (y compris les pauvres) à un groupe relativement restreint d'« éclaireurs d'opinions » qui sont bien instruits, habituellement de classe moyenne et actifs en politique. Dans le contexte canadien, et particulièrement en ce qui a trait à l'intervention culturelle, on a soutenu que les principaux bénéficiaires ont été, et continuent d'être, un groupe sélect d'artistes, de producteurs et de personnel technique, tandis que la population du Canada dans son ensemble se voit affligée de prix plus élevés pour les services culturels qu'elle consomme et d'un choix restreint de productions culturelles.

Les défenseurs de l'intervention gouvernementale dans les activités culturelles ne manquent certainement pas d'arguments. Malheureusement, la plupart des principaux raisonnements sont flous et même tautologiques, ce qui rend difficile leur évaluation critique. Le type le plus « intrinsèque » d'argumentation en faveur de l'intervention gouvernementale dans les activités culturelles veut que la promotion de la culture soit nécessaire à la survie sociale, et que l'intervention de l'État soit nécessaire pour assurer la survie des « marchés artistiques ». Il faut de toute évidence que les deux propositions soient vraies pour que l'argument en faveur de l'intervention gouvernementale puisse porter. La deuxième proposition est parfois étayée par des démonstrations de l'échec du marché dont il sera question ci-dessous. La première est habituellement présentée comme un axiome.

Si la promotion de la culture est nécessaire à la survie sociale, comme le prétendent les interventionnistes, il reste à savoir pourquoi une société éclairée, agissant dans son propre intérêt, ne favoriserait pas volontairement la culture. On oublie habituellement cette question, ou alors on la met de côté en prétendant que le public est ignorant de l'importance de la culture. Certains interventionnistes s'inquiètent que cet argument « méritocrate » puisse dégénérer en une prétention

que certains goûts sont meilleurs que d'autres, ce qui constituerait un fondement inacceptable pour l'action de l'État dans une société démocratique. Ils s'attachent donc à démontrer qu'il existe un appui généralisé du public, grandement insatisfait, en faveur de la promotion des activités culturelles. Cela pose une hypothèse vérifiable (sans grand fondement) qui aide à promouvoir l'examen de leur argument, mais qui oblige toujours encore les interventionnistes à expliquer pourquoi le marché ne répond pas à une demande insatisfaite de culture en provenance du public.

Les nationalistes culturels tendent à restreindre les arguments de la « méritocratie » à une justification de l'intervention du gouvernement pour promouvoir la culture « canadienne ». Plus précisément, ils soutiennent en gros que la culture « canadienne » est nécessaire à la formation du sentiment d'« identité » du Canada. Puisque le concept d'identité canadienne demeure habituellement sans définition, cet argument est à toutes fins utiles vide de tout contenu empirique. Toutefois, les nationalistes culturels sont typiquement plus francs quant à ce qui constitue la culture « canadienne ». En pratique, c'est l'identité des particuliers qui participent à la production et à la diffusion d'un événement culturel qui constitue le critère déterminant. Il est à croire que les non-Canadiens ne peuvent offrir aussi bien que les autres Canadiens des aperçus uniques sur la condition humaine au Canada. Tout en étant à première vue plausible, cette prémisse n'offre en elle-même ni une justification des subventions de l'État à la production de la culture par des Canadiens ni une raison de bloquer l'entrée de la culture étrangère au Canada.

Dans certains cas isolés, les nationalistes culturels ont invoqué explicitement des arguments relatifs à l'échec du marché à l'appui des subventions du gouvernement aux entreprises et aux institutions culturelles de propriété canadienne et des restrictions sur l'importation directe ou indirecte de la culture produite par des non-Canadiens. Une des variantes de cet argument veut qu'une variété de prétendues retombées soient à la source de l'échec présumé du marché quant à la production du montant « juste » de culture canadienne. Si on y regarde d'un peu plus près, la pertinence de l'argument des retombées s'avère plutôt conjecturale dans la plupart des cas. Il reste à démontrer s'il s'agit d'autres choses que de curiosités théoriques qui ne valent même pas le coût de l'intervention du gouvernement. En outre, plusieurs des plus pressants problèmes de retombées semblent pouvoir être réglés plus efficacement par un renforcement des droits de propriété (par exemple par une protection des droits d'auteur) que par une suppression du régime de marché.

Un autre argument relatif à l'échec du marché veut que bien des gens soient ignorants des arts et que la publicité ne réussisse pas à combler cette ignorance. On suggère en outre que pour régler ce

problème, il faut subventionner une plus vaste production des arts, afin particulièrement de donner une expérience directe de ce domaine à un grand nombre de consommateurs et de producteurs éventuels, cet objectif justifiant un financement des arts par l'État.

Cet argument d'information repose sur un énoncé contestable voulant que la faible assistance aux événements culturels provienne d'une ignorance des avantages qu'elle procure; toutefois, aucune preuve directe ne vient appuyer cette proposition. Même si l'on devait accepter l'idée que ceux qui connaissent mal les arts sous-estiment systématiquement les avantages qu'ils tireraient d'une assistance à des événements culturels, il ne s'ensuit pas nécessairement que les subventions du gouvernement à la culture soient une réaction pertinente. C'est-à-dire qu'il ne s'ensuit pas nécessairement que l'augmentation de l'offre des arts de la scène favorisera une plus grande assistance de la part de particuliers auparavant peu intéressés aux arts. À vrai dire, les enquêtes tendent à démontrer que c'est plutôt le manque d'intérêt que le manque de possibilités ou le prix élevé des billets qui explique le peu d'assistance aux événements artistiques. Dans un tel cas, la première conséquence des subventions de l'État peut être de redistribuer le revenu du contribuable aux spectateurs assidus qui, dans l'ensemble, jouissent d'un revenu et d'une instruction au-dessus de la moyenne.

Une troisième grande raison que l'on avance pour l'échec du marché dans la production de la culture « canadienne » est le désavantage auquel font face les producteurs canadiens vis-à-vis les producteurs américains en ce qui a trait aux coûts. Ce désavantage proviendrait des plus grandes économies d'échelle dont jouissent les producteurs américains. Ces derniers, pour leur part, font le dumping de leurs produits sur le marché canadien à des prix que les producteurs canadiens ne peuvent concurrencer.

On a invoqué la doctrine de la concurrence « déloyale » telle qu'elle est appliquée à la culture dans le cadre d'arguments protectionnistes en faveur des tarifs ainsi que des restrictions sur les investissements directs en provenance de l'étranger. Cet argument protectionniste s'appuie sur l'idée que la spécialisation n'a qu'une valeur limitée comme outil de concurrence. Cette idée a été rejetée par les critiques des tarifs intérieurs et pourrait aussi l'être en ce qui a trait à la production de la culture. Plus précisément, plusieurs indices démontrent que des unités de production canadiennes plus petites peuvent concurrencer avec succès sur des marchés de production spécialisés. Même si la production de longs métrages de style Hollywood ou de revues d'intérêt général peut souffrir d'un désavantage concurrentiel au Canada, on voit mal pourquoi le public devrait faire les frais de telles entreprises, tout comme on ne voit pas pourquoi les Canadiens devraient être tenus de subventionner la culture des bananes au Canada.

Les partisans de l'intervention culturelle mettent souvent en évidence les faibles revenus des artistes comme raison de l'intrusion du gouvernement dans les activités culturelles. Les données semblent appuyer un argument voulant que la majorité des artistes, des auteurs et des autres créateurs jouissent de revenus (procurés directement par l'emploi culturel) inférieurs à la moyenne de celui de la population active. Toutefois, plusieurs créateurs à temps plein réussissent à gagner un revenu bien au-delà de celui de la population en général. On peut soutenir que plusieurs artistes qui n'arrivent pas à vivre de leur art connaissent bien les risques du métier; c'est-à-dire que la répartition des revenus des artistes est très asymétrique, un petit nombre jouissant d'un revenu exceptionnel et la majorité jouissant de revenus sensiblement moindres.

En résumé, on peut émettre de sérieuses réserves face à la grande variété de justifications conceptuelles de l'intervention culturelle du gouvernement que l'on trouve dans la littérature tant universitaire que populaire. Nous concluons au chapitre 3 que le fardeau de la preuve en faveur de l'intervention culturelle revient aux nationalistes culturels qui, à notre avis, n'ont pas réussi à présenter une justification cohérente, et encore moins convaincante, des grandes mesures protectionnistes que le gouvernement canadien a mises en oeuvre.

Une série d'études individuelles décrites au chapitre 4 viennent confirmer indirectement nos préoccupations face à la justification mal fondée de la plupart des interventions du gouvernement dans les activités culturelles. Ces études comprennent une évaluation des règlements en matière de contenu canadien pour les radiodiffuseurs, de la déduction pour amortissement des investissements dans des longs métrages canadiens certifiés, des subventions aux arts de la scène et des restrictions des importations de manuels de cours élémentaires et secondaires. Compte tenu des données disponibles, il semblerait juste de conclure que, dans tous les cas, l'intervention culturelle a des effets (voulus ou non) qui sont, sinon socialement indésirables, du moins peu susceptibles de régler les problèmes évidents de l'échec du marché. À cet égard, un des effets les plus remarquables est celui du transfert des revenus de la population générale à un secteur relativement restreint de la population qui jouit d'un rang socio-économique au-dessus de la moyenne.

On peut conclure que l'intervention de l'État dans les activités culturelles a favorisé la croissance de la production culturelle au Canada. On peut cependant se demander sérieusement si elle a favorisé le bien-être général des Canadiens, particulièrement lorsque l'intervention du gouvernement a comporté la suppression du droit du public de consommer une programmation culturelle étrangère. Lorsque le contenu de la production culturelle canadienne est identique à celui des produits américains — comme c'est souvent le cas —,

il est particulièrement difficile de comprendre les objectifs sociaux que vise la promotion de sa production par le gouvernement.

Le chapitre 5 présente un résumé des chapitres antérieurs et quelques observations générales sur la politique culturelle. La plus grande faiblesse de la décision culturelle au Canada, c'est son insistance sur les considérations opérationnelles, c'est-à-dire la façon d'augmenter la production culturelle au Canada, plutôt que sur la question plus fondamentale de savoir si et pourquoi il y a trop de production culturelle au Canada par des Canadiens. Il n'y a eu, à toutes fins utiles, aucun examen critique des répercussions des moyens les plus populaires d'intervention gouvernementale, et les questions fondamentales touchant la liberté de choix ont été presque totalement ignorées. L'intervention du gouvernement dans la culture (comme dans les autres activités) engendre des appels de plus en plus stridents en faveur d'une intervention toujours plus grande, les interventions préalables servant elles-mêmes de justification à une restriction toujours plus grande du libre choix. Malheureusement, dans le cas des activités culturelles, ceux qui sont responsables d'éclairer l'opinion sont souvent en situation de promouvoir leurs propres intérêts en se faisant les champions du nationalisme culturel canadien, tandis que les bureaucrates de l'Administration cherchent à augmenter leur pouvoir. Les perspectives d'obtenir une politique bien avisée et sans parti pris dans un tel climat sont pour le moins incertaines.

Notes

[1] Voir Canada, Comité d'étude de la politique culturelle fédérale, *Rapport*, Ottawa, ministre des Approvisionnements et Services Canada, 1982, p. 59.

[2] *Ibid.*

An Overview of Cultural Intervention

1

Introduction

The appropriate economic role of government in a society based fundamentally on private property rights is a basic issue continually addressed by political economists. The importance of the issue has been magnified in recent years by continued scepticism and concern about the effects of government intervention into market activities. Recently, this scepticism has been most marked in the United States, where the election of Ronald Reagan was interpreted by many observers as public reaction against ever-increasing government expenditures and taxation. In addition, legislation has either been introduced or passed in the United States rescinding or making less stringent a range of government regulations and laws in a variety of commercial sectors, dealing with such things as freedom of entry into and exit from hitherto regulated industries, occupational health and safety codes, product safety requirements, and environmental protection standards.[1]

Public concern about the prominant role of government in the economy has been much more subdued in Canada, although concern about adverse supply-side (or efficiency) effects of government intervention has been acknowledged by government policy makers.[2] Perhaps the most direct acknowledgement of concern was the mandate given the Economic Council of Canada to evaluate the economic consequences of government regulation and recommend ways to mitigate any adverse impacts of regulation on economic efficiency. The Regulation Reference of the Economic Council focused on a number of major commercial sectors regulated by government commissions or boards including telecommunications (but excluding radio and television), trucking, airlines, and agriculture. It also focused on occupational regulation plus such types of social regulation as environmental protection, product safety, occuptional health and safety, and so forth.[3]

While quite broad, the scope of activities considered under the Regulation Reference excluded what might be loosely labelled the "culture industries," notwithstanding the fact that the Director of

Regulation Reference proposed that government intervention in this sector be examined.[4] This exclusion is noteworthy for several reasons. One is the significant size of this sector. Clearly it is impossible to provide an unambiguous estimate of the overall size of any sector of the economy, since estimates will be sensitive to how the sector is defined. For one conventional definition of the culture industries, encompassing the visual, performing, and literary arts, a relatively recent government estimate of the sector's overall size was around $5.6 billion or close to 3 per cent of GNP in 1976.[5] To be sure, it can be argued that any economic measure of the overall size of Canada's cultural sector will understate its relative importance to national welfare. More specifically, many see a flourishing cultural sector, free from censorship, as a requisite condition for the maintenance of democracy and basic human freedoms.[6] The view that culture industries provide a vital political as well as economic service for society heightens the policy relevance of government intervention in this sector.

A second reason for focusing on government intervention in the culture industries is the extensive amount of such intervention in this sector of the economy. While specific documentation of government intervention into cultural activities will be provided below, we can say here that government's influence over the allocation of cultural resources has grown dramatically (some might say alarmingly) in the post-war period. Furthermore, this growth has taken place at all levels of government, but especially at the federal level. It has also taken a variety of forms, including traditional direct regulation or regulation by commissions such as the Canadian Radio-television and Telecommunications Commission, as well as indirect forms such as tax legislation and immigration policy. The magnitude and scope of government intervention into cultural activities is not widely appreciated in Canada. This condition, combined with the overriding importance of the issue of cultural intervention by government, provides a powerful motivation for this study.

Objectives of Study

The basic objective of this study is to put forward a framework for evaluating broad and specific forms of government intervention into cultural activities. The framework is unabashedly economic in orientation. This bias reflects not only the author's training (as an economist), but also his belief that neoclassical economics is a powerful tool for evaluating the efficiency with which resources will be used under alternative institutional arrangements, as well as the distributional consequences of alternative government policies, that is, which groups in society will benefit and which, on balance, will suffer from the implementation of specific policies.

There has been in Canada a long and arguably neurotic obsession with the importance of indigenous culture. Unfortunately, notwithstanding Royal Commission inquiries and investigations conducted as part of regulatory procedures (especially those related to the imposition of Canadian-content requirements for broadcasters and the granting of pay-TV licences), the disinterested observer must feel bewildered by the debate surrounding the role of Canada's culture industries. That the important issues in the debate have not yet been clearly identified is perhaps best illustrated by the eclectic (and, in many cases, inchoate) presentations made to the Federal Cultural Policy Review Committee (the Applebaum-Hébert Committee). The Committee was established by the federal government in August 1980 to examine current federal cultural policies and programs, to study the needs and opportunities that lie ahead, and to recommend future directions.[7]

The Committee held public hearings in 18 cities, heard 521 oral presentations, and studied 1 400 briefs from such varied bodies as the National Museums of Ottawa, the Croatian Folk Ensemble, the Writers Union of Canada, the Association of Polish Engineers in Canada, Moses Znaimer, The Chess Federation of Canada, Time Magazine, the Canadian Organization of Porcelain Art, the CBC, the Advisory Council on the Status of Women, Imperial Oil, and the Mayor of Saskatoon. Observing the Committee's proceedings, Adele Freedman noted:

> Given the far-reaching parameters of culture — it includes virtually everything — the Committee found itself being asked to do everything. Women demanded "the system" admit more women. The spokesman for the Association of Metis and Non-Status Indians of Saskatchewan demanded natives be given the rights to study and know their traditions. Small regional arts organizations demanded more money and recognition for the regions. Canadian filmmakers should think small suggested Znaimer; filmmakers should think big, said major film distributors.[8]

Freedman also suggested that one of the toughest problems facing the Committee is mapping out the territory of its mandate. We would argue that the mapping out of a mandate, or at least the identification of a basic set of guiding principles, has been a perpetually neglected aspect of the cultural policy debate in Canada. Indeed, the policy-making process in the cultural area often seems motivated by nothing more than an antipathy towards the "importation" of U.S. culture. Yet evidence to be presented in a later section suggests that the majority of Canadians enjoy U.S. television programs, films, records, books, and so forth. Government policies designed to reallocate resources towards the production (and consumption) of "Canadian culture" and away

from other goods and services, including U.S. cultural products, therefore raise a fundamental issue: how can such policies possibly promote the interests of most (or even a large plurality of) Canadians? It is to this issue that our study is primarily addressed. More specifically, a set of conditions that offers a potential rationale for government intervention into cultural activities is identified and discussed. Many of these conditions are aspects of a phenomenon identified by economists as "market failure," that is, the inability of the price system to allocate resources efficiently. It will be demonstrated that most arguments for government intervention into the cultural sector rest explicitly or implicitly on the presumed existence of some market failure.

The concept of market failure offers a potentially important insight into the cultural policy debate. If market institutions cannot perform their role efficiently, then some alteration of the relevant institutions (for example, through legislation or regulation) could potentially improve the allocative outcome, that is, increase social benefits relative to social costs. Conversely, if market institutions in the cultural area perform their role tolerably well, it is unlikely that government intervention will promote the interests of the broad majority of the population.

Our specific objectives in this study are to set out clearly and explicitly the economic conditions under which government intervention into cultural activities might improve the welfare of Canadians. As part of this effort, contemporary arguments for cultural intervention are evaluated against established market failure criteria with a view to identifying whether the arguments are consistent with the justifications for government intervention drawn from traditional welfare economics. The strengths and weaknesses of these arguments are evaluated against the background of available evidence on the nature of the markets and the cultural institutions in question. Our overriding objective in all of this is to provide a structure within which hitherto rhetorical arguments for cultural intervention can be made subject to critical examination and hitherto unscrutinized government policies in the cultural sector can be critically evaluated. As a necessary prelude to this effort, the remainder of this chapter presents an overview of Canada's culture industries and the major government instruments of cultural intervention.

Canada's Culture Industries

As noted above, there is no one universally accepted definition of culture industries. For purposes of economic classification, the federal government defines culture as "the creative and expressive artistic activities generally referred to as the performing, visual and creative arts and those functions related to their preservation and dissemina-

tion."[9] This definition is broad enough to encompass museums, archives, libraries, archaeological and historic sites whose functions take in the preservation and dissemination of cultural heritage, but excludes activities that are specifically related to religion and physical recreation. Following from this definition, the federal government presents statistics of federal government expenditures on the following functions which, from the operational point of view, constitute culture: libraries, museums, public archives, heritage resources, films, broadcasting, visual arts (i.e., painting, sculpting and, for some, crafts such as weaving, ceramics, and so forth), performing arts (i.e., ballet, modern dance, symphony, legitimate theatre, opera and, for some, popular music), literary arts (i.e., books, magazines, periodicals and, for some, newspapers), multiculturalism and ethnic organizations, and "other."[10]

Notwithstanding the relatively precise definition of the cultural sector for statistical purposes, the definition, in practice, is much less precise in the public policy area. As noted by a number of observers, the term "culture industries" has been variously applied to the electronic mass media, the distribution and diffusion aspects of various forms of cultural expression, and occasionally to any segment of artistic creation that shows the possibility of making a profit. The mandate of the Federal Cultural Policy Review Committee also illustrates the amorphous nature of the cultural sector for purposes of policy analysis. The Committee's mandate covers the following:

1. The performing arts, from opera through folk dance and theatre to modern dance
2. The visual arts, from native and folk arts through classical forms of painting and sculpture to experimental media
3. Literature, both written, including drama, poetry, and non-fiction, and oral, such as folklore
4. Heritage resources, as represented by museums, galleries, collections, historic parks, sites, and monuments
5. Knowledge and information resources including libraries, archives, and other means for the creation and exchange of knowledge
6. Culture industries, including crafts, film, sound recording, and book and periodical publishing, and also including the press, broadcasting, and communications, in so far as they relate to culture.[11]

The specific definition of culture chosen for purposes of this study is predicated mainly on pragmatic considerations, in particular the availability of information and the need to bound the scope and magnitude of the study. Hence, we have chosen (admittedly somewhat arbitrarily) to adopt the definition employed for statistical purposes by the federal government as outlined above. Moreover, for purposes of

undertaking a more detailed analysis of the causes and effects of cultural intervention, we will focus on a relatively narrow segment of the culture sector, that is, the performing arts.

A Framework for Classifying Government Intervention

Our overview of cultural intervention — to be presented in the following section — shows that government intervention in the cultural sector alters or supplants "market" forces in a variety of general and specific ways. In order to provide a framework for interpreting these multiple forms of intervention, we outline (in this section) a broad set of basic instruments used by governments to intervene in economic processes generally. This list of basic instruments will prove useful in categorizing the specific forms of intervention employed in the cultural sector. We also provide a list of "targets" for government intervention, that is, the proximate potential objectives of government. The latter suggests a framework within which the effects of government intervention can be analysed.

Table 1.1 outlines a set of broad instruments of government intervention: the major tools by which government seeks to modify economic behaviour in the private sector. Table 1.2 provides a list of broad targets of government intervention: the specific outcomes of economic behaviour in the private sector that government intervention typically addresses.

Tables 1.1 and 1.2 are reasonably self-explanatory. Hence, only several elaborating observations will be offered here. One is that each policy instrument can be deployed in a variety of ways. For example, regulation of an industry can be effected by a publicly appointed regulatory commission, such as the Canadian Transport Commission. Alternatively, producers can be left largely to regulate their own behaviour as, for example, the medical profession (although their power to do so resides in provincial statutes). Another example is offered in the case of government subsidies. Such subsidies can be offered on an unconditional basis or on the basis of the recipient satisfying some particular set of conditions, for example, matching the government subsidy with non-government funds. A second observation is that each policy instrument has associated with it a number of attributes including its economic costs and benefits, its coercive aspects, and the political costs and benefits to its wielders. The Economic Council of Canada notes that despite the numerous instruments available, governments have tended to reach for regulation first. The Council suggests that a bias towards choosing the regulation instrument is created by the fact that under current conditions, the political cost of using the regulation instrument appears to be lower

Table 1.1
INSTRUMENTS OF GOVERNMENT INTERVENTION

- Exhortion, negotiation, and moral suasion (e.g., ministerial speeches, the creation of task forces to study a problem, and threats of government action)
- Direct expenditures, including both capital and current outlays for the provision of public services, grants, subsidies, and transfer payments
- Tax expenditures, i.e., the use of tax exemptions or incentives when the cost is measured in terms of revenue forgone
- Taxation, i.e., direct and indirect taxes, fees or prices for public services, contributions to compulsory pension plans or insurance schemes
- Public ownership, including joint ventures in which government is the controlling partner
- Regulation, which includes statutes and all subordinate legislation such as regulations, directives, guide-lines, and the like
- Loans and guarantees.

Source: Economic Council of Canada, *Responsible Regulation: An Interim Report* (Ottawa: Minister of Supply and Services Canada, 1979), p. 43.

Table 1.2
TARGETS OF GOVERNMENT INTERVENTION

- Price (including the structure of prices, tariffs, or charges)
- Supply, i.e., both output and entry by potential suppliers
- Rate of return
- Disclosure of information, e.g., content labelling, securities prospectuses
- Attributes of a product or service, e.g., quality, purity, or wholesomeness of food products; "Canadianness" of cultural output
- Methods of production, e.g., environmental pollution standards, worker health and safety standards
- Conditions of service, e.g., requirements to act as a common carrier
- Discrimination, e.g., in employment or in the sale of goods and services.

Source: Economic Council of Canada, *Responsible Regulation: An Interim Report* (Ottawa: Minister of Supply and Services Canada, 1979), p. 43.

than either taxation, direct expenditures, or public ownership.[12] It will be noted below that while direct expenditures have traditionally been the major instrument of cultural intervention, other instruments, particularly regulation and tax expenditures, have enjoyed increasingly prominent use in recent years.

With the framework provided by Tables 1.1 and 1.2 established, we turn now to an exposition of the major instruments of cultural intervention in Canada.

Instruments of Cultural Intervention

It is virtually impossible to provide an exhaustive identification of the various ways that governments (at all levels) intervene in Canada's cultural sector. One constraint is that published data are cursory and

fragmentary. Another is that intervention is often indirect, for example, *denying* a visa to a foreign entertainer, and consequently not readily amenable to quantitative measurement. Furthermore, it is conceptually unclear whether cultural intervention can be meaningfully quantified as some dollar-denominated index number. For example, regulation of a specific cultural activity might encompass a relatively small dollar value of resources but could have a profound impact on a country's political and social structure.

Our overview of cultural regulation consequently takes the form of an inventory of general and specific ways in which "market" forces in the cultural sector are altered or supplanted by government intervention. While an attempt was made to be reasonably thorough, we cannot claim that our inventory is all inclusive. Indeed, a comprehensive identification of all the instruments used by governments (directly or indirectly) to intervene in culture industries would itself constitute a major research effort.[13] Nevertheless, the abbreviated list of instruments presented below (following the outline presented in Table 1.1) should persuade us that government intervention in the cultural sector is pervasive and profound.

Federal Government Expenditures

Total direct expenditures of the federal government on culture (see Table 1.3) were $1 030.6 million for the 1978/79 fiscal year. Operating expenditures (current outlays) on culture accounted for $831.7 million, or 80.7 per cent of this total. Capital expenditures amounted to $122 million or 11.8 per cent of the total; and current grants, contributions, and transfers amounted to $69.6 million accounting for the remaining 7.5 per cent of the budget.

It is clear from Table 1.3 that the CBC accounts for the lion's share of federal government expenditures on culture. More specifically, it accounted for $691.7 million or 67.6 per cent of the total outlay shown in Table 1.3. When the CBC is excluded, the mix of expenditures between operating expenses (or current outlays), capital expenditures and grants changes fairly markedly. Specifically, excluding the CBC, total operating expenditures for culture amounted to 64 per cent of the total amount spent by the federal government on culture; capital expenditures account for 12.9 per cent; and current grants, contributions, and transfers account for 20.9 per cent. Thus, cultural organizations outside of broadcasting rely much more heavily on grants and transfers from the federal government than does the CBC.

A detailed breakdown of federal government expenditures on culture (and recreation) for earlier years is provided by Ostry, and is presented in Table 1.4. Owing to the way these data are presented by Ostry, no direct comparison is possible between Tables 1.3 and 1.4.[14]

Table 1.3
FEDERAL GOVERNMENT EXPENDITURES ON CULTURE
FISCAL YEAR 1978/79

Function	Current Dollars (Millions)	Percentage of Total (including CBC)	Percentage of Total (excluding CBC)
Libraries	13.40	1.3	3.9
Museums	55.65	5.4	16.8
Public Archives	19.58	1.9	5.8
Heritage Resources	75.23	7.3	22.6
Films	58.74	5.7	17.5
Broadcasting	710.08	68.9	4.1
Visual Arts	5.15	0.5	1.7
Performing Arts	51.53	5.0	15.5
Literary Arts	8.24	0.8	2.4
Multiculturalism/ Ethnic Organizations	14.43	1.4	4.2
Crafts	—	—	—
Other	18.55	1.8	5.5
Total	1 030.58	100.0	100.0

Source: Statistics Canada, *Culture Statistics*, Vol. 3, No. 9, October 1981 (Ottawa: Minister of Supply and Services Canada).

Nor is it possible to break down Ostry's estimates into the specific categories cited under the direct expenditures instrument. The main point apropos Table 1.4 is that federal government expenditures on culture and recreation grew quite markedly over the period 1957/58 to 1978/79. The total increase (1 600 per cent) compares to an increase of slightly over 600 per cent in nominal GNP and almost 300 per cent in government expenditures on goods and services. Using Ostry's classification, reported federal government expenditures declined to $986.3 million in the 1979/80 fiscal year. However, we are unsure of the comparability of our estimates to Ostry's for 1978/79 since, using the Public Accounts of Canada, we could not replicate his estimates for 1978/79. In any case, the point remains that federal government expenditures on culture have grown substantially faster than other categories of direct federal government spending.

Notwithstanding this rapid growth in what can be reasonably identified as federal government expenditures on culture, it is relevant to note that expenditures on culture remain a relatively small component of the federal government's total budget. Specifically, spending on culture represented about 2.2 per cent (including CBC) or 0.7 per cent (excluding CBC) of the total budgetary expenditures of the federal government for 1978/79 compared, for example, with that on health and welfare (35 per cent), economic development and support (11 per cent) and transportation and communications (7 per cent).[15]

Table 1.4
FEDERAL GOVERNMENT EXPENDITURES ON CULTURE AND RECREATION
(Millions of Dollars)

	1978/79	1977/78	1967/68	1957/58
Archives, Galleries, Theatres, etc.				
National Museums of Canada	49.5	44.6	6.3	0.5[b]
National Library	14.3	11.5	1.6	0.2
National Arts Centre	10.4	8.8	13.5	—
Admin. & Historical Branch Public Archives	13.0	11.4	2.0	0.5
Parks, Historic Sites, and Other Recreational Areas				
Parks Canada	194.4	181.6	39.8	17.0
Film, Radio, and Television				
CBC	522.4	467.0	144.0	36.1
National Film Board	34.1	28.9	8.8	3.8
CRTC	15.6	14.2	1.0[a]	—
Other Culture and Recreation				
Admin. Secretary of State	23.7	11.9	1.6	0.3
Arts & Culture, Secretary of State	16.5	11.2	—	—
Fitness & Amateur Sport	32.7	27.1	5.0	—
Citizenship, Secretary of State	58.6	40.7	3.4	1.2[c]
Arts Support, Canada Council	34.9	35.9	16.9	—[d]
	1 023.7	894.8	243.9	59.6

Source: Bernard Ostry, *The Cultural Connection* (Toronto: McClelland and Stewart, 1978), pp. 128–29.

Notes: [a] Board of Broadcast Governors
[b] National Gallery
[c] Under Citizenship and Immigration
[d] Operating funds provided by the income from a $53 million endowment from the estates of Isaak Walton Killam and Sir James Dunn. Total income $2 368 000; expenditures $1 596 000.

Provincial Government Expenditures

Although the movement towards organized attention to the arts, and later to culture more generally, began in Alberta and Saskatchewan in the 1940s, well in advance of the other provinces, Ontario and Quebec currently account for the largest share of provincial expenditures on culture. One available set of estimates for provincial government expenditures on culture and recreation, taken from Ostry, is summarized in Table 1.5. The expenditure categories in Tables 1.4 and 1.5 are quite comparable and facilitate a comparison of federal and provincial expenditures for the period 1977/78. For example, federal government expenditures on archives, galleries, and theatres totalled

Table 1.5
PROVINCIAL EXPENDITURES ON THE CULTURE AND RECREATION FUNCTION
(Millions of Dollars)

Province	Archives, Galleries, Theatres, etc.		Parks, Historic Sites, and Other Recreational Areas		Film, Radio, and Television		Other Culture and Recreation	
	1977/78 $M	1967/68 $M	1977/78 $M	1967/68 $M	1977/78 $M	1967/68 $M	1977/78 $M	1967/68 $M
British Columbia	9.0	1.0	35.2	5.0	0.6	—	12.4	1.8
Alberta	4.9	0.7	57.3	5.4	2.2	0.2	4.0	1.8
Saskatchewan	7.4	0.8	3.1	2.1	0.1	0.2	6.4	0.7
Manitoba	2.2	0.3	15.2	1.8	0.8	—	8.5	2.1
Ontario	33.6	9.9	72.3	8.2	14.3	3.1	99.0	2.5
Quebec	28.2	6.5	94.9	11.6	5.0	1.5	69.3	5.2
Prince Edward Island	1.0	0.2	4.0	0.1	—	—	0.2	0.2
New Brunswick	4.2	0.8	1.8	0.9	—	—	1.9	1.1
Nova Scotia	4.9	0.9	0.8	0.8	0.6	0.1	5.5	1.0
Newfoundland	1.9	0.5	3.5	1.2	—	—	9.7	1.2
	97.3	21.6	288.1	37.1	23.6	5.1	216.9	17.6

Source: Bernard Ostry, *The Cultural Connection* (Toronto: McClelland and Stewart, 1978), pp. 136–37.

$76.3 million, while comparable expenditures at the provincial government level were $97.3 million. In contrast, federal government expenditures on film, radio, and television equalled $510.1 million compared to $23.6 million at the provincial government level. Excluding parks, historic sites, and other recreational areas (which in our terminology are more properly considered recreational rather than cultural institutions), total federal government cultural expenditures were approximately twice those of Canada's provincial governments in 1977/78 (i.e., $713.2 million compared to $337.8 million). Ostry's estimates therefore indicate that the federal and provincial governments spent slightly in excess of $1 billion on culture in 1977/78 or approximately 0.5 per cent of the average for GNP over the two years.

Since it was not feasible to update the specific expenditure categories identified in Table 1.5, we could not compare the specific expenditure estimates in Table 1.5 to those for later years. Indirect evidence does suggest that provincial government expenditures on culture have grown in recent years. Specifically, general expenditures by all provincial governments on recreation and culture equalled $718.5 million in the fiscal year ended 31 March 1979 and $843.4 million in the fiscal year ended 31 March 1981.[16]

Local Government Expenditures

Table 1.6 reports estimates of general expenditures on culture by local governments for 1979 and 1980. It is seen that local governments in Ontario were far and away the largest spenders on cultural activities, accounting for almost 55 per cent of total local government cultural expenditures in 1979 and 52 per cent in 1980. In 1979, local government expenditures on culture equalled almost 41 per cent of provincial government expenditures on recreation and culture for the same year. It should be noted that local government expenditures include funds transferred from provincial levels of government. Unfortunately, the available data do not permit identification of the amount transferred specifically to support cultural activities. Hence our data understate cultural expenditures financed by provincial governments, while overstating expenditures financed by local governments by an offsetting amount.

Tax Expenditures

Government tax legislation constitutes a broad set of instruments (identified in Table 1.1 as tax expenditures) for intervening in the cultural sector.[17] Perhaps the most notable piece of tax legislation in recent years was the 1974 amendment to the Income Tax Act that increased from 60 per cent to 100 per cent the Capital Cost Allowance

Table 1.6
EXPENDITURES ON CULTURE BY LOCAL GOVERNMENTS, BY PROVINCE, 1979, 1980
(Thousands of Dollars)

Newfoundland		Prince Edward Island		Nova Scotia		New Brunswick	
1979	1980	1979	1980	1979	1980	1979	1980
826	905	176	201	7 329	8 183	4 674	5 034

Quebec		Ontario		Manitoba		Saskatchewan	
1979	1980	1979	1980	1979	1980	1979	1980
39 202	46 088	158 491	165 684	9 753	11 056	13 517	14 818

Alberta		British Colombia	
1979	1980	1979	1980
20 858	28 083	36 713	38 599

Source: Statistics Canada, *Local Government Finance* (Ottawa: Minister of Supply and Services Canada, September 1981).

for investors in certified Canadian films. This tax shelter was extended in 1976 to include short films and videotape productions, while the allowance for non-certified films was reduced from 60 per cent to 30 per cent. Until recently, the legislation allowed investors deemed to have put "money at risk" investing in a certified Canadian film to deduct 100 per cent of their share of the project plus any interest paid on the money borrowed to finance their investment in such a project. Changes to the Income Tax Act introduced in the 12 November 1981 federal budget cut the write-offs under this (and other) Capital Cost Allowance provisions by half. The change allows film investors to write off 100 per cent of their investment for income tax purposes until 31 December 1982.[18]

Under the existing criteria, a complicated system is used to determine whether a movie is "Canadian." For the top eight jobs, six out of ten possible points are required, with two points going for a Canadian director, two for a chief screen writer, and one point each for music composer, art director, editor, director of photography, highest paid actor or actress, and second highest paid actor or actress.[19]

There is widespread agreement among industry observers that the 100 per cent Capital Cost Allowance encouraged an explosive growth in the Canadian filmmaking industry. For example, the total number of feature films produced in Canada increased from 28 in 1978 to more than 50 in 1980. Canadian feature films generated $18 million in revenue in 1979 compared to less than $6 million in 1976.[20] Notwithstanding this growth, a good deal of criticism has been levelled at

the quality and nature of the films produced. Typical of this criticism is the charge by the Canadian composer Harry Freedman that the standards of the Academy of Canadian Cinema are those of Hollywood and that the purpose of the Academy is to turn the Canadian film industry into a sort of "Hollywood North."[21]

It is extremely difficult to quantify the cost of this (or any) tax expenditure. Conceptually, the cost to the public treasury is the forgone tax revenue associated with the tax write-off (less any subsequent taxes levied on the activity generated by the write-off). One study estimates that in 1977 total private investor contributions to feature film investment amounted to $13 million.[22] The cost to Canadian taxpayers of allowable deductions of this amount depends, among other things, upon the marginal tax rates of the film investors and the amount and timing of any returns the investors receive from their films. Such returns, in turn, must be reported as taxable personal income in the years received.[23] If one assumes that investors will realize no returns from their investment, forgone tax revenues will total $6.5 million, assuming an average 50 per cent marginal tax rate for investors. On the other hand, if investors realize the full $13 million in returns from future receipts, the tax loss is calculated as the difference in present values between the deductions when taken and the revenues when claimed weighted by investors' marginal tax rates.

In fact, the more relevant notion of social costs to employ when evaluating any public policy is the value of the resources used to produce the output in question, presuming the resources would not have otherwise been unemployed. Thus, the "cost" of the 100 per cent Capital Cost Allowance can be thought of as the value of the resources going into film production as a consequence of this legislation. Since it is not clear how much private funding of films would take place without the allowance, nor whether government funding is reduced or increased as a result of the allowance, it is virtually impossible to estimate the social cost of the film tax write-off. However, the absolute dollar values of the allowable tax deductions, which are some guide to the value of resources channelled to the film industry by the tax write-off, are not trivial. The estimated $13 million tax write-off in 1977 amounted to about 1.5 per cent of total federal government expenditures on culture in that year.[24]

Another broad set of tax expenditures relates to the deductibility from taxable income of contributions made to non-profit arts organizations or cultural institutions up to a maximum of 20 per cent of total personal net income. Unfortunately, no precise estimate of the magnitude of these deductions is available for Canada. However, a "ballpark" estimate can be pieced together from two separate studies. Specifically, Smith estimates that total deductions for charitable donations (including donations to cultural institutions) totalled ap-

proximately $500 million at the federal government level in 1975.[25] While Smith provides no breakdown of donations within categories of charitable organizations, a study done for the United States estimates that donations to arts groups and cultural institutions are approximately 20 per cent of all charitable contributions.[26] Employing this same ratio for Canada would give an estimate of charitable donations to culture of around $100 million in 1975.

Once again, the federal government's forgone revenue would depend upon the marginal tax rates of the donors. In this regard, it might be noted that contributors to cultural institutions tend to have higher average incomes than contributors to charitable organizations as a whole.[27] Nevertheless, since the relevant tax rate is the effective tax rate (i.e., the rate after all exempted income and legal deductions are taken out of the tax base) and not the nominal rate, it is not clear what the relevant marginal tax rate is to apply against cultural contributions. Vandell and O'Hare, using calculated effective tax rates for U.S. contributors at different income levels, estimate that the forgone tax revenues on estimated giving to the arts of $850 million in 1975 were around $302 million.[28] Using the same ratio for Canada (i.e., 302 divided by 850) would provide an estimated tax expenditure of around $36 million (i.e., .355 times $100 million) for 1975. While "rough and ready," this estimate might, if anything, be understated for several reasons. One is that legislated marginal tax rates increase more rapidly in Canada than in the United States.[29] Secondly, both Vandell and O'Hare's and Smith's estimates exclude the tax revenue loss associated with corporate contributions to culture. Notwithstanding these exclusions, it is safe to say that tax expenditures (while significant) are a relatively small percentage of total federal government expenditures on culture as reported in Table 1.4.

Several other tax expenditures might be mentioned in passing. At the federal level, printed material, including books and magazines, receives postal subsidies. That is, the Post Office has continually realized deficits on handling second-class mail, which are subsidized partly by the taxpayer and partly by users of the first-class service. Book publishing companies are exempted from the 12 per cent federal sales tax levied on the manufacturers' sales price of goods produced or manufactured in Canada, while audio equipment importers are exempted from paying tariff duties if the imported equipment is used in film production. The Ontario government exempts theatre and music tickets from the 10 per cent provincial sales tax if all the employees of a production are Canadian. It also reintroduced the "Half-Back" program under which Wintario tickets (provincial lottery tickets) that do not win a prize between June and December can be applied toward a Half-Back discount of 50 per cent (up to a maximum) on admissions to Canadian theatre, dance, and music performances

and purchases of Canadian magazines and books. At local (or metropolitan) government levels, cultural institutions are ordinarily exempt from property taxes. Unfortunately, it is not possible to estimate the value of the foregoing tax expenditures.

Taxation

The most significant piece of tax legislation is Bill C-58, the federal law prohibiting tax deductions for advertising on U.S. border radio and television stations and in foreign-owned publications.[30] The Income Tax Act was amended effective 1 January 1966 so that advertisements placed in foreign newspapers and directed at the Canadian public were not deductible for income tax purposes; however, *Time* and *Reader's Digest* were granted honorary Canadian citizenship for purposes of this amendment. This exemption for *Time* and *Reader's Digest* was later rescinded after the Davey Commission recommended that the exceptions granted the two magazines under section 12A of the Income Tax Act be repealed.[31] Implementations of the revision led to retaliation by the United States government in the form of an amendment to the U.S. tax code prohibiting U.S. businesses from deducting expenditures associated with conventions held in Canada. As part of a recently concluded tax treaty between Canada and the United States, this prohibition was dropped, although Bill C-58 remains a sore point among U.S. broadcasters.[32]

Regulation

Government regulation of culture is extremely pervasive. At the federal government level, regulations imposed under the authority of the Canadian Radio-television and Telecommunications Commission (CRTC) have a pervasive impact on the scope and content of broadcasted material. Specifically, CRTC rulings establish Canadian-content requirements for radio and television broadcasters. In the case of radio, at least 30 per cent of musical compositions broadcast by a station or network operation must qualify as "Canadian." For television, CRTC regulations require 60 per cent Canadian content on private stations and networks over the year.[33] The CRTC can also indirectly influence the programming content of broadcasters by its control over the issue, transferal, and renewal of over-the-air and cable licences. Included in this category are restrictions on foreign ownership of conventional radio and television stations.

The ownership and operation of cable television (CATV) is also heavily regulated by the CRTC. Foreign ownership of cable operations is prohibited. Moreover, with regard to basic services (the VHF stations), the number of commercial U.S. stations cannot exceed three, to which an educational network can be added.[34] Cable operators must,

when retransmitting programs, give priority to Canadian stations. Specifically, when a U.S. station, or a second Canadian station retransmitted by cable, offers the same program at the same time, the cable operators cannot transmit the other signals. The CATV operator must "black out" the U.S. signal and substitute the Canadian signal with its advertisements.[35]

A more recent, but extremely contentious, focus of federal government regulation in the broadcasting sector is federal government restrictions on ownership of earth stations that receive non-broadcasting satellite signals. We shall discuss this issue in more detail in a later section.

The Department of Employment and Immigration has an analogous, if somewhat more limited, power to determine the nature of live artistic performances enjoyed by Canadians by its authority to admit or deny admission to foreign artistic personnel. Historically, this authority has not led to any notable restrictions on the short-run use of foreign artistic talent by Canadian producers. In recent years, however, several notable instances of foreign artists being denied entry into Canada have occurred and have underscored the latent power to regulate culture that resides in the immigration provisions. Perhaps the most noteworthy recent case in this regard was the decision by Immigration Minister Lloyd Axworthy in November 1980 to deny a work permit to British director John Dexter, pursuant to Dexter's appointment as Artistic Director of the Stratford Festival by the festival's Board of Governors.[36]

Yet another source of direct control over the production of culture is provided under the terms of the Foreign Investment Review Act. Under this act, whenever a foreign company with Canadian branches is sold, the effect on the Canadian economy must be reviewed by the Foreign Investment Review Agency (FIRA).[37] If the new owners cannot prove that the transaction will have a "substantial benefit to Canada," FIRA has the power to order the subsidiary sold to Canadian interests. In the past, it has taken a hard nationalist line when cultural activities were involved. A recent decision by FIRA preventing Dow Jones and Co. Inc. of New York to take over Irwin-Dorsey Ltd. of Toronto as part of Dow Jones' acquisition of the U.S. parent company resulted in a decision to close down Irwin-Dorsey Ltd.[38]

Cultural content is also indirectly influenced by copyright legislation. Canadian copyright law is basically similar to intellectual property laws extant in other countries. The law provides authors, composers, and producers of literary and musical works and artistic performances with protection against unauthorized copying by third parties. To date, copyright protection in Canada has been granted to both non-residents and Canadian nationals; however, several recent proposals by advising groups to the federal government have

suggested that future copyright status be restricted solely to Canadian nationals. One such proposal, made in regard to implementing a copyright for performing artists, would restrict copyright protection to Canadian performers, with the intention of encouraging original performances by Canadians and discouraging original performances by non-Canadians.[39]

With the election of the Parti québécois in 1976, the Quebec government took a much more activist legislative stance towards cultural matters. In particular, the government's White Book on cultural development policy lays out a framework for extensive government involvement in and control over cultural activities in that province.[40] A number of disturbing manifestations of this broad-based interventionist stance have materialized in recently proposed legislation. For example, a bill that would allow only one non-French-language print of a film to be shown at any one time in Quebec was introduced in the National Assembly in December 1980.[41] If a distributor wanted to show more than one print of a non-French-language film, he would have to have it dubbed into French or subtitled. Cultural Affairs Minister Denis Vaugeois indicated in an interview that university film clubs and certain art film exhibitors would be able to apply for exemptions.[42] The bill also provides the provincial Cinema Board with expanded powers, including responsibility for approving distribution of non-French films. The Quebec government also obliges public and parapublic institutions to purchase their books exclusively from those bookstores whose head offices are in Quebec and that are at least 50 per cent controlled by Canadians residing in Quebec.[43]

Public Ownership

Public ownership of cultural institutions is limited to a small number of, albeit significant, organizations. Perhaps the most significant in this regard is the Canadian Broadcasting Corporation, a Crown corporation of the federal government. Telesat Canada, the domestic satellite telecommunications system, which is used, in part, to transmit broadcasting signals, represents a fifty-fifty joint venture between the federal government and the major telecommunications carriers. At the provincial level, the Société de télécommunication de la Baie James is operated by the Quebec government as a communications network in James Bay Territory. Radio-Québec and TV Ontario are educational and cultural systems operated by the respective provinces.

Moral Suasion

Instances of moral suasion are difficult to identify since unofficial "requests" of the government are frequently made on a confidential

basis. One prominent example of the use of moral suasion is provided in the case of an unwritten quota agreement negotiated through the federal government with Famous Players and Odeon in 1974, and renegotiated in 1976. The agreement called for the exhibition of Canadian films for a four-week period in each of 357 cinemas owned by the two chains, and an annual investment of $1.5 million in Canadian films.[44]

Summary and Conclusion

Our review of cultural intervention clearly demonstrates that direct expenditures on culture by government represent only one of a variety of instruments used by governments to influence the allocation of cultural resources. While impossible to quantify, it can be plausibly argued that other instruments — particularly regulation — are more significant in their impact. These latter instruments have grown especially in importance in recent years. The overall scope and magnitude of cultural intervention has grown substantially in the last two decades to the point where government actions may well dominate "market" forces in determining resource allocation in the culture industry.

Notes

[1] For an overview of these changes, see Fred Thompson, "Regulatory Reform and Deregulation in the United States," Regulation Reference Working Paper (Ottawa: Economic Council of Canada, 1979).

[2] See W.T. Stanbury and Fred Thompson, "Hurdles to Dismantling Direct Regulation," *The Canadian Business Review* 8 (Winter 1981): 25–32.

[3] This latter type of legislation encompasses what has been labelled by economists as the "new regulation" or as "social regulation" to distinguish it from direct regulation, which is concerned with setting prices, entry, or rates of return, usually by commissions.

[4] An attempt will be made to define the culture industries in the following section.

[5] See James Purdue, "Roberts Proposes New Policy on the Arts," *The Globe and Mail* (5 May 1979), p. 39. The precise measure of size employed, for example, total revenue or total expenditures, is not identified. Another estimate that culture is a "six billion dollar business" with a multiplying factor for tourism and the hospitality business is provided in Arnold Edinborough, "Something New in Campaigning: Talk About Our Cultural Policies," *The Financial Post* (19 May 1979), p. 40.

[6] See, for example, Bernard Ostry, *The Cultural Connection: An Essay on Culture and Government Policy in Canada* (Toronto: McClelland and Stewart, 1978).

[7] A summary of the briefs and testimony from the Committee's public hearings was presented to Communications Minister Francis Fox in January 1982. The Committee's final report is due by the end of 1982.

[8] See Adele Freedman, "Applebaum's Biggest Challenge Lies Ahead?" *The Globe and Mail* (5 December 1981), p. 24.

[9] See Statistics Canada, *Culture Statistics*, Vol. 3, No. 9, December 1980 (Ottawa: Minister of Supply and Services Canada), p. 1.

[10] *Ibid.*

[11] See Edinborough, *op. cit.*

[12] See Economic Council of Canada, *Responsible Regulation: An Interim Report* (Ottawa: Minister of Supply and Services Canada, 1979), p. 43.

[13] For a more comprehensive analysis of governing instruments, see Michael J. Trebilcock, Douglas Hartle, J. Robert S. Prichard, and Donald N. Dewees, *Choice of Governing Instrument: Some Applications*, Regulation Reference Technical Report No. 12 (Ottawa: Economic Council of Canada, 1981).

[14] The source of the small discrepancy between Ostry's (*op. cit.*) estimated total expenditure for 1978/79 and the Statistics Canada estimate cited in Table 1.3 is not explained.

[15] Federal government agencies involved in cultural expenditures include the CBC, Canadian Film Development Corporation, Canada Council (primary source of funding for the performing arts), National Film Board, Social Science and Humanities Research Council, National Library, and Public Archives. For an overview of the role of these agencies, see Conrad Winn, "Department of the Secretary of State: Potpourri or Cultural Mandate," in *Spending Tax Dollars: Federal Expenditures 1980–81*, edited by G. Bruce Doern (Ottawa: Carleton University, School of Public Administration, 1980), pp. 137–62.

[16] These estimates are the reported general expenditures on recreation and culture in Statistics Canada, *Provincial Government Finance, Revenue and Expenditure* (Ottawa: Minister of Supply and Services Canada), various years. Unfortunately, the source does not separate recreational and cultural expenditures.

[17] For an overview of federal government tax expenditures, see Allan M. Maslove, "The Other Side of Public Spending: Tax Expenditures in Canada," in *The Public Evaluation of Government Spending*, edited by G. Bruce Doern and Allan M. Maslove (Montreal: The Institute for Research on Public Policy, 1979), pp. 149–68.

[18] See "Film Investment," *The Globe and Mail* (19 December 1981), p. B.5.

[19] The regulations governing a film's qualifications as "Canadian" have undergone modification in recent years, and substantial additional modifications are expected to be introduced for the 1982 taxation year. Recent and prospective modifications have had the effect of requiring greater use of Canadian citizens in key creative and artistic positions. See Gordon Riehl, "Now Is Time to Look at Shelters for 81," *The Globe and Mail* (23 February 1981), p. B.10.

[20] Statistics Canada, *Culture Statistics — Film Industry 1978* (Ottawa: Minister of Supply and Services Canada, 1981).

[21] See Jay Scott, "Composer Resigns From Film Academy," *The Globe and Mail* (18 July 1980), p. 24.

[22] See ERA Consulting Economists, Inc., *An Evaluation of the Impact on the Canadian Feature Film Industry of the Increase to 100 Per Cent of the Capital Cost Allowance* (Montreal: ERA, 1979). Given the growth in film production since 1977, the total could well be three to four times higher in 1981. In this regard, an official of the Tax Avoidance Division of Revenue Canada states that estimates of 1979 claims totalling $50 million are probably conservative. See Dorothea Katzenstein, "Film Industry's Booming in Canada Because of Income Tax Incentives," *The Wall Street Journal* (16 June 1979), p. 13.

[23] In fact, most feature films made in Canada, to date, have not shown a profit for their investors.

[24] We will consider the potential social benefits of tax expenditures, including the 100 per cent Capital Cost Allowance for film, in a later chapter.

[25] See Roger S. Smith, *Tax Expenditures: An Examination of Tax Incentives and Tax Preferences in the Canadian Federal Income Tax System*, Canadian Tax Papers No. 61 (Toronto: Canadian Tax Foundation, 1979).

[26] Kerry D. Vandell and Michael O'Hare, "Indirect Government Aid to the Arts: The Tax Expenditure in Charitable Contributions," *Public Finance Quarterly* 7 (April 1979): 162–81.

[27] *Ibid.*

[28] *Ibid.*, p. 176.

[29] Offsetting this is the fact that the Canadian government indexes the tax system for inflation while the U.S. government does not. Hence, inflation-related increases in marginal tax rates will be more pronounced in the United States.

[30] The history of this legislation is detailed in Isaiah Litvak and Christopher Maule, *Cultural Sovereignty: The Time and Reader's Digest Case in Canada* (New York: Praeger, 1974).

[31] The history surrounding this decision is discussed in Litvak and Maule, *op. cit.*

[32] For a discussion of the recent tax treaty, see Steven Globerman, "Canada-U.S. Economic Relations: Problems and Perspectives," 1980.

[33] A critical review and evaluation of CRTC Canadian-content requirements are provided in Robert E. Babe, *Canadian Television Broadcasting Structure, Performance and Regulation*, study prepared for the Economic Council of Canada (Ottawa: Minister of Supply and Services Canada, 1979). Babe notes that private broadcasters have sometimes failed to meet Canadian-content requirements, particularly in "prime time." A recent decision by the Supreme Court of Canada upheld a Canadian Radio-television and Telecommunications Commission order imposing a conditional licence renewal on the CTV network. The renewal conditions related to the amount of original Canadian drama produced by the network. See "Supreme Court Upholds CRTC Conditional Ruling on CTV Licence Renewal," *The Globe and Mail* (6 April 1982), p. 2.

[34] See Jean-Luc Migué, *Nationalistic Policies in Canada: An Economic Approach* (Montreal: C.D. Howe Research Institute, 1979).

[35] For a review of CRTC policy in this area, see Katherine Swinton, "Advertising and Canadian Cable Television — A Problem in International Communications Law," *Osgoode Hall Law Journal* 15 (December 1977): 543–90. This article also discusses provincial and federal government conflict over CATV regulation.

[36] See "Met Chief Fears Backlash Over Banning of Dexter," *The Globe and Mail* (2 December 1980), p. 15. Some additional examples and a discussion of restraints imposed by the Employment Department on foreign artists' performances in Canada are provided in David Lancashire, "Imported Talent Choking on Canada's Tight Rules," *The Globe and Mail* (10 July 1978), p. 7. Recent statements by Immigration Minister Lloyd Axworthy suggest that even tighter restraints will be imposed to protect artistic jobs for Canadians. See "Ottawa Sets Rules for Foreign Actors," *The Globe and Mail* (7 May 1982), p. 12.

[37] For an overview of the history and criticisms of FIRA, see Wayne Lilley, "FIRA and Loathing on the Rideau," *Canadian Business* 54 (September 1981): 43–50, 143–46, 151.

[38] See Dennis Slocum, "FIRA Court Challenge Lost: Irwin-Dorsey to Shut Down," *The Globe and Mail* (13 November 1981), p. B.1.

[39] For a description of this proposal and a review of existing copyright legislation, see A.A. Keyes and C. Brunet, *Copyright in Canada: Proposals for a Revision of the Law* (Ottawa: Minister of Supply and Services Canada, 1977). A critical evaluation of the proposal is contained in Steven Globerman and Mitchell P. Rothman, *An Economic Analysis of a Performers' Right* (Ottawa: Minister of Supply and Services Canada, 1981).

[40] See Québec, Ministre d'État au développement culturel, *A Cultural Development Policy for Québec* (Quebec: Éditeur officiel, 1978).

[41] See "Quebec to Restrict English-Language Films," *The Globe and Mail* (29 January 1981), p. 23.

[42] To be sure, other provinces — particularly Ontario — have active government censor boards primarily to screen public performances for sexual material that might "offend common decency."

[43] See Migué, *op. cit.*, pp. 10–11.

[44] This agreement is described in Canadian Conference of the Arts, *A Strategy for Culture* (Ottawa, 1980).

The Basis for Government Intervention into Market Activities

2

Rationales for Government Intervention

Economists posit a number of specific economic conditions that potentially rationalize government intervention into market processes. These may be grouped into three broad categories: to improve economic efficiency by remedying market failures; to alter the distribution of income, and to effect one or more broad social or cultural goals.[1] The existence of one or more of these rationales is a necessary, but not a sufficient, condition for government intervention. It is also necessary for the *ex ante* costs associated with such intervention to be less than the *ex ante* costs of the problem government intervention is designed to alleviate.[2]

1. Market Failures

One set of economic conditions under which intervention can improve allocative efficiency comes under the broad heading of "market failure." Market failure may be said to exist when one or more conditions are present that preclude the efficient allocation of resources by private transactions.[3] We will outline these various conditions below. These conditions are subsequently related to the arguments for cultural intervention identified in Chapter 3.

Public Goods

One such condition involves the case of "public goods," where it may be difficult or impossible to charge users of specific services directly according to use. For example, direct charging may be impossible because non-payers cannot be excluded from utilizing the service once the service has been provided for any one payer. The classic example of this type of "free-rider" problem involves the provision of national defence. By definition, national defence provided for one individual is available for everyone. Thus, no single individual would have any incentive to pay voluntarily for national defence. The inability to exclude non-payers (or free riders) from using the service makes national defence a pure public good. The provision of national defence

therefore requires compulsory payment to be made through the tax system in order to obviate the free-rider problem. In the case of some heavily utilized public facilities such as city streets, it is technically possible to exclude non-payers from using available services, but this is not done primarily because the cost of collecting payment would be prohibitive. Again, payment to build and maintain the requisite social infrastructure is obtained through taxes, thereby necessitating government intervention.

Merit Goods

A justification for government intervention also exists in the case of goods and services that are characterized by externalities in consumption or production, even when exclusion of non-payers is technically and economically feasible. Externalities can be thought of as uncompensated benefits or costs that are bestowed (or inflicted) on third parties by the consumption or production activities of any economic agent. A dramatic example of an externality is the acid rain pollution affecting North America's Great Lakes (and many smaller ones further north) that originates primarily from smelting activities of privately owned producers.[4] These activities inflict health and property damage on a broad segment of the population, and the costs related to these damages are not necessarily incorporated (by market processes) into the costs and price of the output produced from the smelting process. Thus, in the absence of government intervention of some sort, an excessive amount of smelting activity (from a social welfare standpoint) would be undertaken by private producers.[5]

Conversely, some activities may provide uncompensated benefits for third parties. For example, disease control practised by any one individual reduces epidemiological risks for all members of society. It is presumed that individuals will fail to acknowledge the external benefits of their own preventative health care and sanitation measures. Hence, government intervention (in the form of, say, subsidies to health care) may be required to elicit the "optimal" amount of private expenditures on the relevant activities. Public goods and "merit" goods (i.e., goods with significant externalities in use), therefore, provide an efficiency-based rationale for government intervention into the economy.

Inadequate Information

Market failure can also occur if individuals are not sufficiently well informed to permit them to make rational decisions in the light of their preferences. In a world of increasing specialization and complex technologies, it may not be possible to extract from observed characteristics the information required to undertake relatively well-informed transactions for a wide variety of goods and services.

Information available to the market can be inadequate for several reasons. One is the condition that information is usually costly to produce but can be disseminated at relatively low additional cost. Social efficiency would require that the charge for information not exceed the marginal costs of its distribution. If this were done, however, the supplier of the information might not be able to recover his total costs of generating it. The result might be a less than optimal amount of information being produced and disseminated. A closely related notion is that it may be difficult for the producer of information to retain proprietary ownership of the information if the information were widely disseminated through private exchange. In this case, production of such information might be seriously retarded.[6] Such market failure properties of information distribution are the ostensible basis for government actions such as research and development grants and patent legislation.

Another potential cause of inadequate information derives from the fact that producers or suppliers generally have far more relevant information than do the consumers about the attributes of goods for sale. Furthermore, under certain conditions, producers have an incentive not to disclose important information and even to disseminate misinformation. Where it is difficult for consumers to evaluate the claims of producers, there may be little incentive for "honest" producers to disseminate valid and useful information leading to a degradation of the average quality of information in the market-place and, indeed, the potential disappearance of the market.[7] Two basic types of regulatory approaches have been taken to remedy this type of market failure: labelling requirements specifying the content of food products, clothing, hazardous household chemicals, and so forth; and the setting of standards for those who have the information necessary to help individuals make rational decisions.[8]

Natural Monopoly

Another efficiency-based rationale for government intervention arises from the existence of great economies of scale, that is, decreasing unit costs over substantial output rates, often thought to be characteristic of certain capital-intensive industries. The existence of significant economies of scale introduces a potential conflict between efficient production and a larger number of competitive suppliers. More specifically, realization of the full cost-reduction benefits of economies of scale may even require that a single producer provide output to serve the entire market, so-called natural monopolies.[9] But this, in turn, would leave consumers vulnerable to monopoly pricing on the part of the single seller.

The traditional view of regulation, sometimes identified as the "consumer protection" model of regulation, maintains that the ben-

efits of economies of scale can be captured by permitting a single producer to pre-empt the market, with prices charged, in turn, being constrained by a regulator to permit the single seller to earn a competitive rate of return on the allowed capital base.[10] However, the consumer protection model of regulation has been challenged as being naïve by numerous critics of government regulation. One early school of criticism holds that regulatory commissions actually protect producers rather than consumers.[11] In one version of the "producer-protection" hypothesis, regulatory officials are hypothesized to be "captured" by suppliers. That is, they become persuaded, over time, that actions primarily in the interests of producers are, in fact, in the broad public interest. In another version, regulation is seen as the direct outcome of producers lobbying for the elimination or reduction of competition either from within or without the industry.

A broader critique of government regulation views the process primarily as a vehicle for redistributing income among competing interest groups, frequently at the cost of reduced allocative efficiency. Policies directed at redistributing income are, in turn, largely the outcome of supply and demand forces in the "market" for government intervention.[12] Since the model of government intervention as a redistributive mechanism is ubiquitous in the recent public finance literature, we will address its implications again in a later section of this chapter.

Common Property in Natural Resources

One additional market failure rationale for government intervention, which while not directly relevant in the case of culture industries is important enough indirectly to merit discussion, is the improper use of natural resources stemming from the existence of common property rights. Examples of this particular problem are found in the case of "overfishing," the reduction of pressure of oil and gas wells so that the total amount recovered may be less than what is economically feasible under single ownership, and the "overcrowding" of the broadcasting spectrum so that the quality of many signals is severely degraded. In each of these cases, the producer does not have an exclusive property right in the common property resource. As a result, the producer reasons that any use of the resource he forgoes in the interests of the whole will be taken up by others. Such competition for the common resource may lead to development that is too early and wasteful of the resource in question.[13] The establishment of production quotas for individual producers is one type of response taken by the government to deal with common property resource problems.

2. Income Redistribution

It is generally though by no means universally accepted that in a democratic society, government has a responsibility to assure equitable treatment for all individuals in society. The concept of equity has many facets. It is invoked to justify government actions designed (among other things) to:

1. Achieve broadly based minimum standards of income, health and safety, education, and so forth
2. Ensure fair treatment before the law and social institutions in the sense of the consistent and impartial application of rules to all individuals, e.g., to treat persons in similar circumstances similarly
3. Reduce the degree of inequality in the distribution of income, wealth, power, and social and economic opportunities
4. Prevent "exploitation" of the unknowing or economically disadvantaged by the more knowledgeable and advantaged, e.g., the protection of minors.[14]

Equity is a purely ethical concept and the positions taken by individuals in society can differ with respect to the limits of government responsibility in this area. It is probably fair to assert, however, that the concept does not extend to the redistribution of income (or wealth) from society at large to narrowly defined interest groups, particularly when the latter comprise individuals who are economically better off than the rest of society, on average. In this case, the "rationale" for income redistribution must be found in the operations of political markets, whereby policies directed at redistributing income are, in turn, largely the outcome of supply and demand forces in the "market" for government intervention. Different groups in society compete for (i.e., demand) government intervention favourable to their own income prospects by lobbying public officials in positions to implement (i.e., supply) significant forms of government intervention.

In one recent model of the market for government intervention, the determination of the overall size of the public sector is seen as the outcome of a two-step process. The first step consists of a search for a politically "dominant" redistributive program that, speaking loosely, maximizes the product of the net number of beneficiaries and the fraction of those perceiving it to be the best deal. Once the policy is identified, the second step consists of competition among politicians leading them to converge on that policy in their platforms and to implement it upon election.[15]

Since Peltzman's model is concerned with aggregate government expenditures, it is not necessarily transferable directly to a focus on specific government programs. Nevertheless, certain deductions of

Peltzman's model may be relevant in this regard. One is that different groups in society may have differential abilities to garner government support. If this ability is positively related to income, it would no longer necessarily follow that the poorest citizens would be prime beneficiaries of income redistribution. A second deduction is that political opposition to specific government programs will be less intense, the more diffused are the costs of the programs among non-beneficiaries. The less intense the political opposition to specific programs, the more likely their implementation, all other things being constant. Given the existence of "rational ignorance" on the part of the general population towards most specific lobbying efforts, it is easy to understand how specific government programs are implemented even though they benefit relatively narrow segments of society.[16]

3. Nationalism as a Public Choice Process

A number of economists have noted that a substantial portion of government actions having the effect of redistributing income from broad segments of the population to specific interest groups are undertaken in the name of promoting nationalism. One relatively recent analysis of the nationalism phenomenon in Canada argues that when nationalism gives rise to protectionist policy measures, overall economic efficiency suffers in the region imposing these measures.[17] The thrust for protectionism comes from those who would benefit from it, and protectionist policies are adopted at the expense of others although the rhetoric is couched in terms of the "national interest."

Migué argues that cultural policies, such as the establishment of a minimum Canadian content for radio and television programs, have contributed to an increase in the demand for a variety of inputs to the programming production process. In the short run, this increased demand will contribute to higher incomes for virtually all of these inputs. However, the factors that benefit most from increased demand in the long run are factors with the most inelastic supply curves.[18] Migué suggests that Canadian artists and authors, as well as managers and media specialists, are the main beneficiaries of government regulations governing Canadian content. The quota on content handicaps station owners, who must bear higher costs to supply less popular programs, and limits the freedom of choice of Canadian viewers and listeners. On the other hand, licences to import foreign programs acquire a commercial value since the quantity of such programs is limited. These quotas procure a rent for station owners that partially compensates them for their losses. Restrictions on the number of U.S. channels that cable operators are authorized to retransmit also primarily benefit Canadian artists, authors, and managers. Contrary to the effects of direct regulation of content,

however, this measure can also benefit the owners of Canadian stations, especially local stations, who are provided with a kind of captive market. The net long-run effect of present regulations governing the content of television and cable broadcasting is a transfer of income or wealth from Canadian viewers, listeners, and taxpayers to Canadian artists, authors, and managers,[19] and the substitution of the preferences of bureaucrats and politicians for the sovereign preferences of viewers and listeners.

As noted above, under certain conditions income redistribution is a government responsibility that could well meet with the approval of the "median" voter. Certain programs to redistribute income have been objected to on the grounds that the redistribution could be effected more efficiently through other means, for example, a guaranteed income or a negative income tax.[20] However, critics of economic nationalism including Migué are concerned that the redistribution is, on balance, regressive in nature; that is, the net beneficiaries have, on balance, above-average incomes while the net losers have below-average incomes.[21] To date, very little empirical testing has been done of deductions from models of economic nationalism. One study attempted to test the allocative and distributive consequences of government protectionism in the areas of commercial and science policy.[22] The results tend to support the broad deductions drawn by critics of economic nationalism. Specifically, the beneficiaries of protectionist policies appear to be managers and highly educated scientific and technical personnel.[23] These factors of production have incomes well above the average for the working population. To be sure, Migué's assertions have not been documented in the case of cultural intervention. Indeed, some proponents of cultural nationalism argue the case for cultural intervention on the grounds of distributive justice. Given the important policy implications of this issue, we evaluate the income redistributional consequences of cultural intervention in some detail with reference to several culture industries in Chapter 4.

Cultural Nationalism and Cultural Content

Besides reduced allocative efficiency and adverse distributional consequences, critics of cultural intervention express concern about a deterioration in the quality of cultural output in Canada. For example, Mordecai Richler has written: "nationalists are lobbying for the imposition of Canadian-content quotas in our bookshops and theatres. . . . In a word, largely second-rate writers are demanding from Ottawa what talent has denied them, an audience."[24] Joe Shoctor, founder of Edmonton's Citadel Theatre, has condemned Canadian protectionism in the arts as a curtailment of freedom and a "gravy train for those of moderate talent."[25] In a related vein, John Wood,

head of English theater at the National Arts Centre, contends that the quality of Canadian theatre has suffered from a too rapid growth. His suggested solution is to open the frontiers so that Canadian artists can learn from foreign artists.[26]

Upon reflection, it is not surprising to find some prominant Canadian artists condemning cultural intervention. It may be somewhat cynical to suggest that their disapproval is motivated largely by pecuniary self-interest. Undoubtedly, talented writers such as Richler have a strong intellectual commitment to quality in Canada's creative arts. However, it is at least relevant to note that Canadian artists with international reputations in their field have potentially more to lose than to gain from Canadian cultural nationalism. Domestic demand for their services already exists by dint of their talent, and the marginal increases in domestic demand owing to increased protectionism could be relatively small. On the other hand, the possibility of foreign governments imposing cultural "barriers to trade" in retaliation for Canadian protectionism poses the threat of a significant reduction in foreign demand for the output of their services. For a Canadian artist of Richler's calibre, the potential costs of the latter eventuality presumably outweigh the potential benefits of additional protectionism for Canadian artists in the domestic market. The recognition that some cultural factors of production in inelastic supply may actually be disadvantaged by cultural protectionism makes an empirical test of Migué's hypothesis even more difficult than it would be otherwise.

Social and Cultural Objectives

Since Confederation, successive Canadian governments have used their taxing, spending, and regulatory powers to create a national consciousness or sense of identity that is maintained even at some cost to its citizens.[27] Whether or not governments can create a national consciousness through cultural intervention is a question we will raise in a more pointed fashion in the next chapter. At this point we will merely note that even if the answer were affirmative, it would provide only a necessary but not a sufficient condition for government intervention into cultural activities. More specifically, it is also necessary to show that the market system, left to itself, would provide an insufficient "quantity" of cultural output, and/or a non-optimal "quality" of output from the perspective of "creating a national consciousness."

Cultural nationalists, as a rule, do not address the issue of why cultural intervention is required to create a national consciousness. Typically, it is blandly asserted that increased Canadian cultural output is required to preserve Canada's cultural (or political) sovereignty (usually from American "domination"). Then it is further

asserted that government intervention is required to realize the goal of increased Canadian cultural output.[28] Sometimes, albeit infrequently, an attempt is made to justify why government intervention is required to assure an "optimal" quantity or quality of domestic cultural output. We will demonstrate in the following chapter that the reasons explicitly cited can be identified with one or another of the market failure rationales for government intervention cited above. But even where market failure arguments have been raised by cultural nationalists, the empirical relevance of the arguments has simply been *assumed* and not documented.

The claim that increased Canadian cultural output is required to maintain Canada's national identity and political sovereignty is an extremely difficult (perhaps intractable) issue to address with conventional academic tools.[29] Certainly the economist has no comparative advantage in addressing this issue. Nevertheless, the claim is a key component of the cultural nationalist's argument and should not be dismissed out of hand, nor accepted unquestioningly. We acknowledge at the outset that we attempt no definitive evaluation of this issue. We do, however, consider several theoretical aspects of the claim as well as its contemporary relevance for policy makers. To preview our conclusions, we question the premise that indigenous cultural output and Canada's national identity are necessarily positively related. Put in other words, we argue that cultural intervention in Canada may have reached the point where it is more politically and socially divisive than it is unifying, in part because government actions have largely overruled market forces where no issue of market failure was at stake.

The Policy Issues

The overriding issue confronting this study is whether the myriad forms of government intervention into Canada's culture industries promote the welfare of *most* of Canada's citizens. The Herculean nature of this task is apparent. As a practical matter we can offer only a qualified appraisal at a highly aggregated level. That is, we cannot evaluate each and every government expenditure program or regulation separately but must consider broad categories of cultural intervention, thereby ignoring potentially important distinctions at the operational level. Furthermore, in the absence of a "social-welfare" function for Canada, our analysis must take the form of an appraisal of the social benefits and costs of cultural intervention on a discrete number of broad dimensions.[30] Two of these dimensions have already been identified: to improve the efficiency of resource allocation in Canada; and to promote distributional equity. For purposes of analysis, the concern about efficiency in the allocation of scarce resources will focus on specific considerations of whether government

intervention into cultural activities is required by the presence of market failure in relevant markets. The concept of equity will be identified with the goals of reducing the degree of inequality in the distribution of income, wealth, and power in society and ensuring that people in similar circumstances are treated similarly by the government.

In addition to these two traditional criteria for evaluating government intervention into markets, several other criteria are relevant and worthy of consideration. One is the concept of individual freedom. As the Economic Council of Canada notes, government regulation is coercive and limits the scope of individual freedom. While there is no such thing as absolute freedom and while government intervention is not the only source of constraint on individual freedom, a reduction in freedom is a real cost in a democratic society.[31]

The Economic Council of Canada also suggests that the regulatory process itself should be assessed in terms of the following values: informed decision making, accountability, procedural fairness, and openness.[32] More specifically, government decision makers need to formulate a clear statement of the nature of the problem to be solved and the objectives of intervention. Knowledge of costs and benefits of alternative policies and their distribution must be acquired by decision makers. Regulatory processes and related legislative processes must also provide both the necessary information and opportunities to make elected officials responsible and accountable to the public for their actions. This implies that government actions must be taken in open forums.

The policy issues associated with evaluating government actions are complex and a definitive evaluation of them is difficult in the best of circumstances. In the emotionally charged and data-deficient area of cultural intervention, thorough analysis of the relevant policy issues is even more difficult. It is therefore appropriate to note at the outset that our analysis is suggestive rather than conclusive. Resource limitations as well as the lack of required statistical information dictated a primary reliance upon theoretical analysis and the use of anecdotal evidence, as opposed to a more traditional and rigorous statistical evaluation of hypotheses deduced from fully specified theoretical models. Nevertheless, even this "casual" evaluation of government intervention raises important theoretical and factual criticisms of government policy in this area. If nothing else it shifts the burden of proof onto the shoulders of "cultural nationalists" to defend interventionist policies (both contemplated and in place) along the criteria dimensions outlined above.

Summary and Conclusions

A variety of market "failures" can, in theory, be postulated in support of government intervention into market processes. The existence of market failure is, however, only a necessary, but not a sufficient, condition for government intervention since the costs of the latter may, in different circumstances, exceed the costs of the relevant market failure. Thus the evaluation of government intervention requires a consideration of whether a market failure problem exists, as well as of the magnitude of the problem to compare to the costs associated with the government policies implemented. With respect to the costs of government intervention, the sacrifice of personal freedoms should not be ignored. Furthermore, procedural aspects of government intervention are relevant. For example, government policies should be formulated in an open fashion, with the objectives of the policies clearly specified to facilitate public evaluation and the accountability of political decision makers.

In recent years, a substantial body of literature has developed supporting the view that government intervention into market activities is the outcome of supply and demand forces in political "markets." An implication of these studies is that a substantial amount of government legislation is induced through the lobbying efforts of narrowly defined interest groups, and that market failure considerations may have little or no relevance. Rather, the demand for governments to intervene is to alter the distribution of income. Furthermore, the political effectiveness of lobbies may be related to education and income levels suggesting that income redistribution effected through political markets might be regressive in nature.[33] This premise is consistent with models of economic nationalism that have argued that narrowly defined, middle-income groups tend to be the beneficiaries of nationalistic policies, including government intervention undertaken to promote cultural nationalism. In contrast to the market failure hypothesis, this latter group of studies suggests that cultural intervention will reduce allocative efficiency in the culture industries, while benefiting a narrow and relatively well-off segment of the population. In short, government becomes a mechanism whereby the economically and politically more powerful advance their interests at the expense of the great body of the population.

Notes

[1] This grouping is suggested in Economic Council of Canada, *Responsible Regulation: An Interim Report* (Ottawa: Minister of Supply and Services Canada, 1979), p. 43.

[2] *Ibid.*, p. 46.

[3] A description of these conditions can be found in virtually any textbook on micro-economics. For example, see Jack Hirshleifer, *Price Theory and Applications* (Englewood Cliffs, N.J.: Prentice-Hall, 1976).

[4] For an analysis of the acid rain problem, see N.D. Yan, "Acid Precipitation: A Review," mimeo (Toronto: University of Toronto, Institute for Environmental Studies, 1978).

[5] A general overview of the market failure problems associated with environmental externalities is given in John H. Dales, *Pollution, Property and Prices: An Essay in Policy-Making and Economics* (Toronto: University of Toronto Press, 1968).

[6] For a more detailed perspective on these issues, see Kenneth J. Arrow, "Economic Welfare and the Allocation of Resources for Invention," in National Bureau of Economic Research, *The Rate and Direction of Inventive Activity: Economic and Social Factors* (Princeton, N.J.: Princeton University Press, 1962), pp. 609–25.

[7] See George A. Akerlof, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," *The Quarterly Journal of Economics* 84 (August 1970): 488–500, for a seminal treatment of this problem.

[8] For a further discussion of the distinction between a standards and a labelling approach, see Ron Hirshhorn, "A Case Study of the Proposals for Energy Consumption Labelling of Refrigerators," Regulatory Reference Working Paper (Ottawa: Economic Council of Canada, 1978).

[9] The concept of natural monopoly is somewhat more complex in the case of a multi-product producer. For a discussion of this issue, see William J. Baumol, "On the Proper Cost Tests for Natural Monopoly in a Multi-product Industry," *American Economic Review* 67 (December 1977): 809–22.

[10] The "consumer protection" model of regulation is outlined in F.M. Scherer, *Industrial Market Structure and Economic Performance*, 2d ed. (Chicago: Rand McNally, 1980); and Richard A. Posner, "Theories of Economic Regulation," *Bell Journal of Economics and Management Science* 5 (Autumn 1974): 335–58.

[11] See, for example, George J. Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* 2 (Spring 1971): 3–21; and William A. Jordan, "Producer Protection, Prior Market Structure and the Effects of Government Regulation," *The Journal of Law and Economics* 15 (April 1972): 151–76.

[12] A seminal presentation of this model is found in Sam Peltzman, "Toward a More General Theory of Regulation," *The Journal of Law and Economics* 19 (August 1976): 211–48. The interested reader might also see Michael J. Trebilcock, Leonard Waverman, and J. Robert S. Prichard, "Markets for Regulation: Implications for Performance Standards and Institutional Design," in Ontario Economic Council, *Issues and Alternatives 1978: Government Regulation* (Toronto: The Council, 1978), pp. 11–66.

[13] For a fuller discussion of the common property problem, see Garrett Hardin, "The Tragedy of the Commons," *Science* 162 (1968): 1243–48.

[14] See Economic Council of Canada, *op. cit.*, p. 29.

[15] See Sam Peltzman, "The Growth of Government," *The Journal of Law and Economics* 23 (October 1980): 209–87.

[16] The concept of "rational ignorance" can be thought of as the conscious decision on the part of voters to forgo gathering information about and participating in specific political issues, where the outcome of an issue is of relatively limited *ex ante* importance to them. An early and seminal treatment of this phenomenon is provided in Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957).

[17] See Jean-Luc Migué, *Nationalistic Policies in Canada: An Economic Approach* (Montreal: C.D. Howe Research Institute, 1979).

[18] The elasticity of supply for a factor of production is technically defined as the percentage change in quantity supplied divided by the percentage change in the returns to the factor in question.

[19] Migué, *op. cit.*, p. 46.

[20] For a broad perspective on this issue, see Steven Shavell, "A Note on Efficiency vs. Distributional Equity in Legal Rulemaking: Should Distributional Equity Matter Given Optimal Income Taxation?" *American Economic Review* 71 (May 1981): 414–18.

[21] Since income and education levels tend to be highly and positively correlated, Migué's concern is consistent with Peltzman's ("The Growth of Government," *op. cit.*) assertion that highly educated groups are more effective lobbyists for government intervention. Other early critics of Canadian economic nationalism also suggest that the primary beneficiaries of nationalist policies are middle-class individuals with above-average education levels. See, for example, Albert Breton, "The Economics of Nationalism," *Journal of Political Economy* 72 (August 1964): 376–86.

[22] See D.J. Daly and Steven Globerman, *Tariff and Science Policies: Applications of a Model of Nationalism* (Toronto: University of Toronto Press for Ontario Economic Council, 1976).

[23] The conclusions drawn in the Daly and Globerman study have been strongly criticized by several reviewers. For one focused critique, see Mel Watkins, "The Economics of Nationalism and the Nationality of Economics: A Critique of Neoclassical Theorizing," *Canadian Journal of Economics* 11 (Supplement, November 1978): S87–S120.

[24] Mordecai Richler, "Canadian Identity," in *The Future of North America: Canada, the United States and Quebec Nationalism*, edited by Elliot J. Feldman and Neil Nevitte (Montreal: The Institute for Research on Public Policy, 1979), p. 50.

[25] See "Shoctor Condemns Arts Protectionism," *The Globe and Mail* (4 June 1981), p. 19.

[26] See Max Wyman's column, *Vancouver Sun* (20 November 1980), p. 9.

[27] This point is emphasized in Economic Council of Canada, *op. cit.*, p. 52.

[28] For an example of this line of argument, see A.W. Johnson, "The Goal for Canada: Make TV More Canadian," *The Globe and Mail* (10 April 1980), p. 7. The fact that the Canadian media are prime beneficiaries of protectionist policies in the cultural area contributes to the continued presentation of the argument in an axiomatic fashion. Furthermore, access to mass communication gives proponents of the argument tremendous political "leverage" in the lobbying process.

[29] The fact that this argument has attained the status of an axiom among most policy makers may account for the startling success of lobbyists for Canadian cultural nationalism.

[30] The purpose of a social welfare function is to permit specification of inevitable trade-offs among various arguments of the function.

[31] Economic Council of Canada, *op. cit.*, p. 28.

[32] *Ibid.*

[33] As noted above, the political effectiveness of the cultural nationalists' lobby is further enhanced by the fact that many representatives of the group are "opinion leaders" in their roles as writers, educators, and so forth.

An Exposition and Evaluation of the Arguments for Cultural Intervention

3

Introduction

There is no shortage of arguments offered by advocates of government intervention into cultural activities. Unfortunately, many of the arguments are vague and even tautological. This makes critical evaluation of them difficult. As noted in the previous chapter, proponents of government support for cultural activities often assume that such assistance is socially desirable a priori. The most "intrinsic" form of argumentation for government intervention into cultural activities maintains that the promotion of culture is necessary for national survival and that the state has a responsibility for ensuring the survival of "artistic markets."

Given "necessity" and a state responsibility for the quality of life, this "meritocracy" argument is clearly sufficient for state intervention in cultural activities, assuming that intervention can increase the supply and consumption of the arts. However, if there is no consensus within society on what constitutes "the good society" with a high degree of arts activity, then the argument can be reduced to a claim that some tastes are "better" than others. This is an unacceptable basis for government action in a democratic society.[1] Naturally, proponents of cultural intervention are concerned with demonstrating that broad public support exists for the promotion of cultural activities. (Even the élite recognize that their preferences must be cloaked in the support of the masses.) The typical argument in this regard is that the majority of the population supports direct or indirect aid to cultural organizations even if they are not themselves active patrons of cultural institutions.

An example of this line of argument is provided in a report prepared by the Canadian Conference of the Arts for the Applebaum-Hébert Commission. The Canadian Conference cites the results of a 1979 Statistics Canada survey indicating that 72.6 per cent of respondents indicated that they had very positive feelings about the arts and cultural events put on by local artists in their community, while 72.1 per cent reported that they had positive feelings about nationally recognized Canadian artists. When it came to the "nitty-gritty"

question, "In general do you feel governments should give financial support to cultural activities?" 83 per cent said, "Yes."[2]

It is difficult to evaluate the data reported in the preceding paragraph since a critical piece of information is missing, that is, how much are Canadians willing to pay, either directly or indirectly, to support indigenous cultural activities? Hypothetical expressions of support for particular activities are unpersuasive, particularly when respondents are not made aware of the real costs associated with their support.

In fact, surveys tend to show that regular attendance at live cultural events is limited to a relatively narrow segment of society. For example, a 1975 Statistics Canada survey of a national sample of 32 000 respondents found that slightly over 20 per cent of the Canadian population attended at least one live performing arts event in the twelve-month period prior to October 1975, where performing arts are defined as popular music, classical music, theatre, opera, ballet, and dance.[3] The bulk of this attendance was at popular music concerts, not generally the recipients of government financial aid. Attendance at museums and similar cultural institutions is also limited to a narrow segment of society, notwithstanding the enthusiastic reception periodically given to special exhibits such as the "King Tut" North American tour.[4] To be sure, attendance at films and especially television viewing takes in a much broader segment of the population. Nevertheless, it is not clear that the film and television material appealing to the "popular" taste appeals to proponents of the "meritocracy" argument. Indeed, we shall shortly offer evidence indicating that the most active proponents of cultural intervention strongly disapprove of the viewing tastes of the majority of the Canadian population.

We would therefore conclude that a broad claim that increased arts availability promotes a better society represents a largely unsupported value judgement and not a sufficient argument for cultural intervention. This is a particularly relevant disclaimer once one acknowledges that a better society can be promoted by increased housing availability, increased availability of health facilities, and so forth. It is not clear why the arts are more "meritorious" than other potential uses of society's scarce resources. Nor does the meritocracy argument make clear why private markets will fail to provide the artistic output that is alleged to be so widely valued by society. The unacceptable nature of this argument is exacerbated by the fact that wealthier, more highly educated individuals tend to patronize artistic events well out of proportion to their representation in the population. Policies that promote the interest of an élite at the expense of the majority of the population can hardly be justified on the grounds that they are for the "social good."[5]

The Cultural Nationalism Argument

Perhaps the most ubiquitous justification for government intervention into cultural activities in Canada to be found in the literature and in the popular press is the notion that "Canadian content" in domestic cultural activities is required to strengthen and preserve the "Canadian identity." A selection of quotations from various sources should be sufficient to illustrate this general line of argument:

> ". . . programming from the United States tends to impart certain values or images. Such programming, especially accessible because of the identity of language between Canada and her neighbour, the technical facility for picking up signals off the air or by cable television, and the similar attitudes and life style, risks reinforcing the north-south pull and undermining efforts to strengthen the Canadian cultural identity."[6]
>
> [The influence] of the United States over Canadian mass media . . . may have the effect of Americanizing the value structure of Canadian society; this would make it difficult for Canadians to promote a value system reflective of "things Canadian," rather than of "things U.S."[7]
>
> ". . . national broadcasting . . . must contribute to the development of national unity and provide for a continuing expression of Canadian identity."[8]

At different times, various politicians and civil servants have identified the mass media as "the lifeblood of a nation's identity."[9] Some have gone so far as to criticize Canadians for their lack of commitment to Canadian content. For example, former CBC President, A.W. Johnson decries the fact that "we have reached the point (in Canada) where two out of every three hours of English television are foreign, mostly American, and in some places it's four out of five."[10] He suggests that ". . . we in Canada have behaved almost as if we were indifferent to the power and the potential of television for reinforcing a sense of our country. We have behaved almost as if we were indifferent to the importance of Canadians being able to share, through television, the richness and the variety of their country. We have behaved almost as if we didn't know that a sense of Canadianism, the will to remain a nation, depends upon Canadians being brought together — depends on their coming to know one another — depends on their being interested in one another . . ."[11]

Perhaps the most elliptical expression of this position was provided by Prime Minister Trudeau at the Juno Awards in 1979:

> . . . we are admirers of the performers who are here tonight and who are gathered in other parts of the country — we realize that they are more than contributors to an industry which is big business. We

realize that they also express first their own soul, their own feelings, their own interior strength. But they also sing the song of Canada — they sing from the heart of Canada — they sing from the feelings of Canada. And for this reason they deserve our support.[12]

Without some elaboration of why many (indeed most) Canadians will not *voluntarily* choose to consume "Canadian culture" rather than "U.S. culture," the foregoing appeals to cultural nationalism are merely a more specific argument for cultural intervention based on the meritocracy notion. Indeed, the words of the President of the CBC indicate that some proponents of cultural nationalism acknowledge a need to override the decisions of the general public apropos their choice of cultural consumption. This conflict between the priorities of bureaucrats and those of the Canadian viewing public has been brought into clear focus with the efforts of the federal government to displace the reception of U.S. super-stations by the Cancom package of Canadian programming provided by Canadian Satellite Communications Inc. of Toronto. In Manitoba, for example, the recently elected New Democratic Party government assured Manitobans that it would support their desire to watch U.S. programming, notwithstanding the Department of Communications' insistence that any earth station aimed at U.S. satellites is illegal and liable to prosecution. With growing evidence that the Manitoba Telephone Service may be less supportive of the illegal stations, a citizens' group calling itself "Canadians for Real Freedom of Choice" has been formed. The group plans to set up its own co-operative television station. It would aim its earth station at the Satcom satellite to pick up station WRO in New York, WTBS in Atlanta, and WGN in Chicago.[13]

This serious infringement of freedom of choice on the part of the federal government should be of great concern to all Canadians. While stressing our own concern, we will not expand upon the threats to political and cultural freedom posed by such extensions of government power, since it would take us well beyond our limited mandate in this study. At the least, Canadians should expect a persuasive argument for accepting limitations on their freedom of choice in the area of cultural activities. On the basis of the foregoing quotes (and many others one could cite), it would appear that the cultural identity defence as generally stated is merely an amended version of the meritocracy argument; that is, while U.S. culture is "bad" for you, Canadian culture is "good" for you.

Culture Identity as National Defence

The intellectual credibility of the "Canadian identity" argument for cultural intervention can be buttressed by drawing an analogy between culture and national defence. As noted in Chapter 2, national

defence constitutes a pure "public good." That is, once paid for it is available to everyone. Exclusion of non-payers is impossible. Therefore, there is no incentive for any one individual to pay his or her share of defence expenditures voluntarily. Payment must be exacted through mandatory tax payments. To the extent that the indigenous production of culture is identified as an aspect of national defence, some basis exists for positing a market failure argument for government intervention.

A number of proponents of cultural nationalism have drawn an analogy between indigenous culture and national defence. For example, the Royal Commission on Publications in 1976 argued that "the communications of a nation are as vital to its life as its defences, and should receive at least as great a measure of national protection."[14] Aitken suggests that Canadian nationalism (especially economic nationalism) is a defensive reaction to external threats of absorption by the United States, and that current concern over the relations of Canada and the United States reflects the relative decline of Great Britain's role as an historic counterpoise to the weight of the United States.[15] A problem with this argument is that it is a tautology in the absence of a model of how increased indigenous culture promotes increased Canadian identity. On casual observation, it seems possible to argue that increased government intrusion into cultural activities has — on some occasions at least — been a *divisive* force in Canadian society. For example, the government of Quebec views the cultural initiatives of the federal government as part of an effort to eliminate the Québécois culture, while the federal government suspects the Quebec government of attempting to subvert the federalist state by promoting a sense of cultural isolation among Québécois. The rancour surrounding the debate over whether cable television should be controlled by the provinces or by the federal government is another illustration of how cultural regulation has become an instrument for intergovernmental conflict.[16] Antagonism (and even litigation) between citizens' groups wishing to receive satellite broadcasts of U.S. television stations and several provincial governments on the one side, and the federal Department of Communications on the other, also illustrates how cultural regulation has been a divisive force in Canadian society.[17]

In the absence of some clearer understanding of how the production of "Canadian" culture promotes national defence, interventionist policies, to date, are subject to the criticism that they are, at best, haphazard and potentially grossly inefficient. For example, the argument does not at all make clear how to define "Canadian culture." Nor does it specify the nature of the "Canadian identity" that should presumably be portrayed through domestic cultural performances. This criticism is far from academic "nit-picking." In the absence of a

specification of how culture "produces" national identity and a more defensible nation, it is quite plausible to argue that there may be much less costly ways to accomplish the objective, including spending more on national defence! Indeed, it is possible to argue that virtually no effective relationship exists between indigenous culture and national identity. For example, some critics suggest that art, by its very nature, is international in character,[18] or that art should be judged for its own sake and not for the sake of cultural, social, or economic purposes. Given this view, it is unclear why indigenous art more effectively promotes a sense of identity than "imported" art. Yet this is presumably a key underlying assumption of the "cultural identity" argument.

Cultural Activity and Social Identity

Suggestions of the nature of the potential link between cultural activity and social identity are contained in the Massey Commission report.[19] For example, the Commission argued that Canada became a national entity because of certain habits of mind and convictions that its people shared and would not surrender. It concluded that "it is in the national interest to give encouragement to institutions which express national feeling, promote common understanding and add to the variety and richness of Canadian life, rural as well as urban."[20]

The Commission's implicit equating of national identity to shared habits of mind and convictions is consistent with definitions of personal identity found in the educational psychology literature. For example, Johnson defines identity as a consistent set of attitudes that define "who I am." An essential aspect of social development is forming a distinct image of oneself as a certain kind of person who has an identity differentiated and discernible from others.[21] Inkeles and Levinson conclude that the main thread running through numerous definitions of national character found in the social psychology literature refers to characteristics that are common or standardized in a given society.[22]

Acknowledging that Canadians may possess certain shared values and convictions is not tantamount to specifying the nature of Canada's "identity." While we claim no expertise in this area, our casual reading of the evidence suggests that social psychologists, who presumably enjoy a comparative advantage in this field of endeavour, have not demonstrated an ability to identify national characteristics to their own profession's satisfaction.[23] Certainly there has been no dominant expression of the Canadian identity that I am aware of, unless it is the personae of Bob and Doug Mackenzie. The latter are caricatures of rural Canadians played by two Canadian entertainers.[24]

Trebilcock *et al.* note that presumably because it is so difficult to define the inherent qualities of cultural products that are uniquely

Canadian, government assistance for the most part involves assisting Canadian productions or the use of Canadian inputs, rather than the uniquely Canadian quality of the product itself.[25] We are not as sanguine as Trebilcock *et al*. about such an expedient resolution of the difficulty in defining Canada's national identity. The criterion of nationality of input has spawned a nation of supplicants who sanctimoniously petition Ottawa for protection against foreign competition on the grounds that they are Canadians or, as a next best condition, that they employ Canadians. One does not have to be an economist to recognize that indiscriminant response to such petitioning is economically untenable. We would further assert that it is morally repugnant.

A number of definitions of nationalism suggest that the difficulty in defining the national identity as a basis for cultural intervention can be circumvented by focusing on the nature of the link between cultural activity and social identity. For example, Deutsch suggests adopting a functional definition of nationalism that centres on the intensity of social communications within and among groups. In this view, nationalism depends not so much upon the usual catalogue of shared characters as upon the fact that members of the same nation communicate more effectively and over a wider range of subjects, with members of one larger group than with outsiders. The intensity of national cohesion is therefore evaluated in terms of the degree of intensity of communication.[26]

The Deutsch framework suggests the following conceptual link between cultural intervention and social identity:

$$CIN = f(GCI)$$
$$SID = g(CIN)$$

where *CIN* is some measure of the degree of communications intensity within Canada; *GCI* is a measure of government cultural intervention; and *SID* is a measure of Canada's national cohesion. The presumption is that the arguments of these functions are positive, that is, *CIN*, *GCI*, and *SID* are all positively related.

The advantage provided by the Deutsch framework is that it provides a more tractable "target" for government cultural intervention, that is, the intensity of communications within Canada, than is provided by the amorphous concept of Canada's identity. The Deutsch framework seems quite relevant to the federal government's decision to establish the National Film Board (NFB), for example. The NFB's mandate was to "advise upon the making and distribution of national films designed to help Canadians in all parts of Canada to understand the ways of living and the problems of Canadians in other parts."[27] Within the Deutsch framework, the NBF can be seen as an agent to promote communication between Canadians. Whether the intensity of communications target can be made operational for policy-making

purposes is conjectural. Even if it could be, however, two fundamental issues would remain. One is whether government intervention can improve upon the process by which the culture industries generate and disseminate information about Canada to Canadians. Note that within the Deutsch framework there is no necessary problem of appropriability. That is, non-payers could presumably be excluded from most conventional communications media such as film, newspapers, magazines, and so forth. The rationale for government intervention must therefore derive from some other market failure problem. We will evaluate other potential market failure problems in the following sections.

A second fundamental issue is whether the stimulus to intranational communications must come from within the country. This critical link in the culture nationalists' model is generally assumed and not empirically or even theoretically demonstrated. One proponent of this position was the late Prime Minister R.B. Bennett who, speaking in 1932, stated:

> This country must be assured of complete control of broadcasting from Canadian sources, free from foreign interference or influence. Without such control radio broadcasting can never become a great agency for the communication of matters of national concern.[28]

An alternative perspective is offered by Sandwell. He suggests that some radio commentators in the United States have a poor audience in Canada not because they cannot be heard, but because their mental attitude or their philosophy is not congenial to Canadians. While he acknowledges that U.S. newspaper services occasionally treat subjects in a decidedly "American manner," the U.S. columnists actually printed on a large scale in Canada are the most responsible and well balanced of the lot. Because they are recognized as Americans expressing an American viewpoint, their material is judged for what it is and probably does a great deal more good than harm.[29]

In short, Sandwell raises the possibility that Canadians are competent to reject imported culture that is not congenial to their habits of mind and convictions. He also posits the possibility that imported culture promotes awareness of national issues and interests. Both propositions seem eminently reasonable to us. While there is (to our knowledge) no reliable empirical evidence bearing on the issue, it seems quite reasonable (to us) to assume that both foreign and indigenous culture contribute to promoting communications within Canada and, indeed, even communications about Canada. The character in the situation comedy "All In The Family" has as much to say to Canadians as to Americans about the unenlightened nature of bigotry. If the "King of Kensington," a situation comedy set in Toronto, has more to say about the human condition in Canada than innumerable

comparable U.S. situation comedies, we would argue that the difference is marginal (except to the Canadians who earn their income from the production). In short, we would propose a somewhat different specification of the "social identity" determination process. Specifically, we suggest that communications intensity within Canada (*CIN*) is a function of the output of both Canadian culture (*CC*) and foreign culture (*FC*). The primary impact of government cultural intervention (*GCI*) is to increase the price of foreign culture (P_{fc}) and (through subsidies) to reduce the price of Canadian culture (P_{cc}) to Canadian residents but to increase the overall real *cost* of Canadian culture.

Under these assumptions, it is possible to show that cultural intervention taking the form of protectionism against foreign culture can actually reduce communications intensity within Canada.[30] The argument proceeds heuristically as follows: cultural intervention has the effect of inducing an increased consumption of indigenous culture and a decreased consumption of foreign culture. Since both indigenous and foreign culture contribute to increased communications intensity, it is possible for the net effect to be a decrease in communications intensity, if the decrease in the consumption of foreign culture weighted by its contribution to communications intensity exceeds the increase in the consumption of indigenous culture weighted by its contribution to communications intensity. Thus, if it is public policy to promote communications intensity, it is far from clear that cultural intervention contributes to this goal, much less that it is an efficient way to do so.

Unfortunately, it is not possible, given the current state of information, to be definitive about the impact of cultural intervention on the development of a national cohesiveness, presuming the latter concept could be satisfactorily defined and measured. However, the thrust of our assessment is that grounds for scepticism exist regarding the entire argument. Not only is it unclear, in theory, whether the types of protectionist policies that have been implemented to date increase communications intensity within Canada (the intervening variable in the cultural intervention-national cohesiveness connection), but it is also unclear whether the relevant relationships can be made sufficiently operational so that effective and efficient government policies can be implemented. It seems inappropriate to base public policy on the assumption that a relationship between cultural intervention (broadly defined) and national cohesiveness exists, let alone that the relationship is non-decreasing. The burden of proof on this issue would appear to rest with those calling for even more cultural intervention.

Externalities

As noted in Chapter 2, the presence of externalities (either costs or benefits) establishes a theoretical argument for government intervention into market processes. A number of specific arguments have been raised in the literature in defence of the notion that the "production" of culture is characterized by externalities. One such argument holds that many art forms provide training and employment opportunities for other art forms for professionals in the field. For example, classical music compositions are sometimes adapted to popular music compositions or to movie scores; formal training in legitimate theatre can often be adapted to a film career; and so forth. A related argument maintains that artistic undertakings are essentially experimental. Thus, while some may fail, others may profit from this failure. A further argument holds that the benefits of arts consumption may be realized by other than those patronizing the event. For example, the arts may attract visitors to a city and, in general, generate income for those in ancillary services. It has also been suggested that "high culture," for example, opera, ballet, and so forth, must be supported in order to maintain its availability to future generations.[31]

With respect to the first argument, it is certainly true that a significant sharing of "basic knowledge" takes place across art forms. However, it is often possible to establish a proprietary interest in a specific cultural event or composition. For example, it is possible to establish a proprietary interest in musical compositions, plays, and so forth through copyright. Furthermore, the extent to which one art form provides training and employment opportunities for other art forms is open to question. Surveys have found, for example, that a majority of radio and television performers possess only a single performing specialty: dance, song, dramatic acting, and so forth. For those indicating that they possessed more than one performing specialty, some could be suspected of exaggerating their competence to enhance their probability of getting an opportunity to perform.[32]

A broader issue in the externalities argument, however, is whether cross-media training (to the extent that it exists) should be paid for by the general public (in, say, the form of government grants) or whether the artists themselves should bear these costs. After all, to the extent that an artist's "marketability" is enhanced by a broad background and training in several different art forms, the rewards of this training may be captured by the artist in the form of higher income and/or increased employment opportunities. If the rewards of cross-media training can be largely "internalized," there is no basis for an externalities argument.

The argument that "experimental" performances would not be undertaken in the absence of public support for the arts is related to (but does not necessarily follow from) the notion that artistic

"failures" sometimes provide valuable object lessons for future creative efforts. Certainly the dissemination of information about a specific "failure" would comprise an externality for those contemplating a similar effort. In this respect, however, the culture industries are not unique. For example, "dry holes" in petroleum exploration provide geological information to the industry as a whole about the prospects of finding oil in a given area. The unprofitable attempt to introduce new products provides valuable marketing information for all producers of related products. In short, the information content of business "failures" represents a positive externality. If this phenomenon is justification for public subsidies, the justification encompasses a broad segment of market activity and not just the culture industries.

Notwithstanding this disclaimer, an analogy can be drawn between subsidies for experimental art and subsidies for industrial research and development. It has been demonstrated that the social returns for major industrial innovations exceed by a wide margin their private returns.[33] It may be conjectured that a similar condition exists for major creative artistic efforts. Abbing argues that true artistic breakthroughs may be imitated and modified in numerous ways (e.g., industrial design) that defy the effective imposition of a reusers' fee. The artists involved in their creation cannot expect to capture even a fraction of the income indirectly associated with their creative insights.[34] Abbing therefore concludes that such externalities constitute an argument for government subsidies to cultural activities. The analogy between experimental art and scientific research has been criticized on the grounds that those who fund pure scientific research are at least clear in their minds (except at the margins) what the population of the scientific community is and what the field of scientific research is. It is much harder to define the field of the arts that is to be subsidized, in terms of either personnel or activity.[35]

While this criticism is potentially relevant — since policies that are non-operational are unlikely to be successful — it appears to qualify rather than mitigate the analogy between government subsidies to research and government subsidies to culture. Of potentially greater concern is the possibility that creative people are essentially insensitive to the material rewards attending their output. In this case, subsidies to experimental art may not affect the long-run output of cultural performances, but would merely transfer income from the taxpayer to the subsidized artists.[36]

Related arguments for public subsidies to research and development have also been premised on the notion that risk diversification is more efficiently undertaken by the government than by private investors. Diversification in this sense refers to the overall risk reduction achieved by undertaking a variety of new ventures whose outcomes are statistically independent.[37] Analysis of the diversification argu-

ment by economists leads to a general conclusion that where capital markets are reasonably efficient, no substantial efficiency advantages can be expected to result from pooling new ventures at the public level. That is, unless information and transactions costs are lower for government agencies than for private investors, the latter can achieve any given degree of risk reduction (by holding a diversified portfolio of R&D performing companies) that can be realized by taxpayer subsidies to those same companies. However, since non-profit organizations raise no money on capital markets, the opportunity for society to diversify its "investments" in new artistic ventures is limited. Thus, the risk-pooling achieved by a central government granting agency such as the Canada Council can promote efficiency objectives.

Of course, there are limits to the presumed efficiency advantages of centralizing R&D activities. One potential limit is set by managerial diseconomies of scale. That is, beyond some critical size, rising costs of administering the granting agency may offset any diversification advantages afforded by centralization.

The externality argument that actions taken in the present may impact on future generations is not, of course, unique for culture industries. Indeed, forgoing present consumption for future consumption is the essence of the capital formation process, yet a wide range of capital goods are produced and sold in private markets. In the case of the arts, it has been suggested that the art of performing will be forgotten unless it is continuously practised.[38] Hence, government subsidy is required to ensure that the arts are available to future generations who cannot make their demands known in the present. This argument is usually coupled with the thesis (to be elaborated below) that cost pressures would drive most performing arts groups into bankruptcy without government subsidies.

Several points may be made concerning this "option demand" argument. One is that the art of performing is as old as recorded history, notwithstanding the fact that broad-based (government) intervention in the culture industries is a relatively recent phenomenon.[39] A second point is that while a live artistic performance is obviously a perishable service, the advent of videodiscs, videocassettes, and the like makes it economical to fixate live performances and store them for future exhibition. (Indeed, the demand for one stimulates the other!) If there were grounds to suppose that future generations will have a strong demand for artistic events and that a shortage of such events might materialize in the future, enterprising producers would presumably be encouraged to fixate performances for replay in the future. Thus, the art of performing would be maintained (in a form) by decisions undertaken in private markets.

An analogous "cultural preservation" argument has been raised in regard to historic monuments, artifacts, and the like. The basic

question that again arises is whether a market failure problem exists in the preservation of historical monuments. Some observers have noted that private enterprise is often invoked to enable people interested in the past to obtain historical services for payment; for example, limited companies have been set up to sell admission for visits to the castles and manors of European aristocracy; "voluntary" contributions are often solicited by churches and cathedrals; and so forth. In other cases, clubs have been formed to save historic monuments.[40] In short, the relevance of the cultural preservation argument might be much more limited than its proponents have acknowledged.

The cultural preservation argument is related in spirit to another "option demand" argument. The basic premise of the latter argument is that individuals may derive utility from access to the arts even if they are not direct consumers of culture.[41] And even more so than in the case of historic monuments and buildings, it is extremely difficult for arts groups to extract payment for this service through the box office. Of course, one could argue — as in the case of historical monuments — that voluntary contributions solicited by arts groups, cultural clubs, and the like provide a means for non-attenders to express their option demand. While there is clearly an incentive to "free ride" on the contribution of others, it is not clear that such a tendency to understate demand is of greater significance than the tendency to overstate option demand when it appears that the general taxpayer will foot most of the bill. The basic point here is that in the absence of some market or "quasi-market" based test of the value of a service, there is a substantial danger that too much of the service will be provided from an economic perspective.[42]

In summary, there does appear to be some theoretical basis for an externalities argument in support of government cultural intervention. The limits of this argument are, however, unclear. For example, a substantial amount of "internalization" of the rewards of creative efforts may be effected through the existence of copyright legislation.[43] However, the existence of copyright provides only a partial monopoly position for the creative artist as it protects primarily against plagiarism rather than imitation. In particular, the social returns to experimental art may sometimes greatly exceed the private returns and, in this sense, establish a rationale for government subsidies similar to those adduced for government R&D grants. This argument for government subsidies is a qualified one, since the supply of experimental artistic effort might be relatively insensitive to financial reward.[44] Furthermore, it might be difficult to identify experimental art except at the margin. Moreover, in the absence of a "national defence" motivation, it might be inefficient for the Canadian government to subsidize major experiments in the arts, since Canadian

society can often "free ride" on the artistic experiments conducted elsewhere. In a similar fashion, it may be argued that the preservation of culture for future generations is highly amenable to market solutions with market failure considerations inhering to specific and a relatively limited number of cases.

The argument that the arts may attract visitors to a city, keep the affluent attached to a city and, in general, generate income for those in ancillary services is not very persuasive.[45] Even if it were demonstrably the case that the arts enhanced the attractiveness of a city to middle- and upper-income residents and tourists, it is not clear that subsidizing urban culture is an optimal policy from a national perspective. More specifically, it might, at best, simply reallocate a marginal number of middle-income workers from one urban area to another. Furthermore, it seems unjust to impose the costs of subsidizing culture on the general taxpayer when the beneficiaries of increased arts attendance, for example, restaurateurs, hotels, and the like, comprise the main indirect beneficiaries. This is particularly relevant given the fact that owners of restaurants, hotels, and other complementary inputs to tourist servicing can integrate into the production of culture.[46]

The premise that cultural activity creates employment is a broader version of the urban development argument. This specific argument maintains that direct or indirect subsidies to culture industries are an efficient way to stimulate job creation and overall economic activity. In this regard, former Secretary of State John Roberts has expressed support for the film industry Capital Cost Allowance partly on the basis that one new job is created by the investment of $40 000 in a new film; this compared with an investment of $500 000 to achieve the same result in the petrochemical industry.[47] The comparison drawn by Roberts is meaningless in an economic sense. The appropriate economic comparison would require standardizing the relevant investment costs by the value of the output created in the two industries. More specifically, if the value of the output created by a worker in the petrochemical industry exceeds that created by a worker in the film industry by more than the capital costs associated with creating the jobs, Roberts' argument is a *non sequitur*.

Notwithstanding this observation, the "job creation" argument for cultural intervention is unacceptable on macro-economic policy grounds. If the government has a role in promoting aggregate economic activity, it surely is more effectively fulfilled by managing broad monetary and fiscal policy tools and allowing the market to determine the sectors that should expand or contract.[48] An even more fantastic claim by the Canadian Conference of the Arts can be dismissed on similar grounds. Specifically, and on the basis of no cited evidence, the Canadian Conference claims that the sale of our cultural

products abroad not only has direct benefits but also leads to heightened international interest in Canada's culture that can lead to long-term trade benefits for other sectors of the Canadian economy.[49] Whether or not there is any significance to this claim, it is hardly credible to propose that cultural intervention be included in the macro-economic instruments used to address Canada's balance-of-payments problems.

Informational Market Failure

It has been suggested that many people are ignorant of the arts and that advertising is not useful in overcoming this ignorance.[50] It is further suggested that the way to deal with this problem is to subsidize more widespread production of the arts, specifically designed to give large numbers of potential consumers and producers firsthand experience of them, thereby justifying government arts funding in pursuit of this objective.

This information cost argument rests on a dubious proposition that non-attendance at cultural events derives from ignorance about the net benefits of attending. There is limited direct evidence to support this proposition, although there is also evidence that actual and potential audiences to performing arts events overestimate the costs of attending.[51] Even if one accepts the notion that those unfamiliar with the arts systematically underestimate the benefits they would derive from attending cultural events, it does not necessarily follow that government subsidies to culture are required. More specifically, it does not necessarily follow that increasing the availability of performing arts events will systematically promote greater attendance on the part of individuals hitherto showing little interest in the arts. For example, a survey of the population of Ontario found that it was primarily lack of interest rather than lack of opportunity or high ticket prices that accounted for non-attendance at performing arts events.[52] Furthermore, surveys of open-air concerts and the like show a striking similarity in the demographic composition of audiences for "free" events and those for events at which admission prices are charged, further attesting to the view that interest in the arts is not necessarily related to the availability of low-priced cultural events.

Some observers argue that the real problem is not a lack of information on the part of the non-attenders but a lack of taste for the performing arts.[53] Some also acknowledge that tastes are quite durable over time; that is, habitual non-attenders are unlikely to become active participants in the arts regardless of the extent of public support. This acknowledgement leads to the suggestion that a "taste" for the arts can be cultivated by early childhood exposure to performances. For example, the Canadian Conference of the Arts suggests that ". . . it is the formal education system which provides the

best base for ensuring that future artists and future audiences have regular exposure to the arts at an early age and throughout their years of formal learning. It is within the schools that a federal investment in the audiences of the future needs to be made."[54]

The view expressed by the Canadian Conference is not inconsistent with surveys of arts audiences that have found that frequent attenders are more likely to have enjoyed an early childhood exposure to the arts.[55] This has led some arts groups to recommend greater public financial support for arts education in public schools.[56] Leaving aside the issue of whether or not audience surveys have identified a valid relationship between early exposure to the arts and subsequent interest as an adult, the question of why government has the responsibility to promote a demand for the arts remains. The meritocracy argument, that is, a civilized nation should appreciate the arts, as noted above, is not a sufficient reason for cultural intervention.

The Baumol and Bowen Thesis

The most common justification found in the academic literature for government support for the performing arts is the Baumol and Bowen "cost disease."[57] This hypothesis maintains that the arts, by their very nature, are labour intensive. Technological change, on the other hand, is typically embodied in new capital equipment. Since the opportunity to substitute capital for labour does not ordinarily exist for performing arts organizations, the latter cannot realize the same rates of productivity growth as other sectors of the economy. But, since they have to compete with other sectors in labour markets, the production costs of arts organizations will increase relative to the costs of other production units. This, in turn, implies that prices charged by arts organizations will have to rise relative to prices charged for other consumption activities. Given some degree of price sensitivity on the part of consumers of artistic performances, this continuous increase in the relative price of cultural events would lead to a continuous decline in attendance at performing arts events. If the demand for arts events is price elastic, the percentage decrease in audience attendance would exceed any given percentage increase in average ticket prices. As a result, the attempt to generate higher revenues through price increases would be self-defeating.

Proponents of the Baumol and Bowen thesis point to the large operating deficits incurred by arts organizations as evidence of the thesis' empirical relevance. The existence of operating deficits, however, does not prove that little can be done to improve productivity or that demand for attendance at the performing arts is price elastic.[58] For example, it may be that arts organizations fail to take advantage

of available opportunities to improve productivity[59] or that they are victimized by restrictive labour union practices.[60]

Arts organizations may also (wittingly or unwittingly) be forgoing opportunities to increase earned revenue through more effective marketing activities, through more effective price discrimination, and so forth. With respect to the latter point, a number of observers have argued that a greater premium could probably be charged for choice seats than is currently being charged by most established arts groups.[61] This criticism is potentially relevant for Canada given the data presented in Table 3.1. These data suggest that many major arts organizations in Toronto have failed to increase the relative price spread between high- and low-priced seats.[62] The general objection raised by arts groups to charging higher prices is that it would

Table 3.1
SATURDAY NIGHT TICKET PRICES FOR EVENTS IN TORONTO

Event	1959	1979	% Increase
National Ballet of Canada			
Highest Price	$3.50	$20.00	471
Lowest Price	1.50	6.00	300
Canadian Opera Company			
Highest Price	4.50	17.50	289
Lowest Price	1.50	10.00	567
Musical, O'Keefe Centre			
Highest Price	6.00	25.00	317
Lowest Price	1.50	6.00	300
Drama, Royal Alexandra			
Highest Price	5.00	15.00	200
Lowest Price	2.50	6.00	140
Stratford Festival (Festival Theatre)			
Highest Price	5.00	14.50	190
Lowest Price	1.00	3.50	250
Symphony, Massey Hall			
Highest Price	4.00	15.00	275
Lowest Price	1.50	6.00	300
Small Theatres, Approximate			
Highest Price	1.50	6.50	333
Lowest Price	1.00	3.00	200
Downtown Movie	1.00	3.75	275
NHL Hockey Game			
Highest Price	6.50	12.00	85
Lowest Price	2.50	4.00	60

Source: David Lancashire, "Costly Night at the Opera, Theatre, Ballet, Movies . . .," *Globe and Mail* (24 March 1979).

discourage students and other lower-income individuals from attending. However, effective forms of price discrimination are more likely to impact on wealthier attenders, who are likely to comprise the bulk of demand for choice seats and for early-run performances.[63]

In addition to more effective price discrimination, opportunities may exist for performing arts organizations to market their output to a wider audience. For example, more effective use of marketing techniques such as computerized mailing lists, sales brochures tailored to specific market segments, ticket sales to local companies for discounted resale to employees, and scheduled events of direct interest to minorities hold promise of promoting demand for the performances of arts groups.[64] But perhaps the greatest marketing opportunities for performing arts groups rest in providing cultural programming on cable television, particularly when pay-TV is introduced in Canada. Possibilities also exist for markets in performances fixated on videodiscs and videocassettes.[65]

A careful evaluation of the evidence calls into question the empirical relevance of the Baumol and Bowen thesis. Not only does it appear that arts organizations can market more effectively, thereby increasing earned revenue and (possibly) philanthropic contributions as well, but it is also quite possible that even if the number of performers for certain types of performances (e.g., opera) are relatively fixed, costs associated with rehearsing and staging performances can be pruned with no significant decline in the quality of performances. Notwithstanding significant opportunities to close the "earnings gap," it is undoubtedly true that some contraction of arts activities would result from a significant real reduction in government support to the arts.[66] However, such a contraction would not be *per se* evidence of market failure, anymore than contractions in other service activities (such as hand laundries) are evidence of market failure.

Natural Monopoly

The Baumol and Bowen hypothesis, to the extent it has any substantive empirical relevance, is restricted in its application to performing arts organizations. There is little basis for its application to other major cultural activities such as film, recording, and publishing, where technological change is acknowledged to be more significant. In the case of these latter industries, however, cultural intervention has sometimes been argued for on the basis that Canadian production units are too small to compete against U.S. units, and, therefore, that Canadian producers will be driven out of business if they are not protected from the competition of U.S. producers. This argument has been expressed by, among others, A.W. Johnson, President of the CBC:

> We are a nation with two small television markets — 18 million English-speaking and 6 million French-speaking Canadians. And if those markets became so seriously fragmented that the audiences for each network became too small, then the will of Parliament to support the CBC, and the willingness of advertisers to buy commercials on private networks, will be seriously eroded. That is why the CRTC must continue to take very seriously its responsibility to licence all networks and thus to ensure the economic viability of Canada's broadcasting system.[67]

The "unfair" competition argument has also been raised in the context of the publishing industry:

> Until [Bill] C-58 became law, Canadian magazines were suffering from what they saw as unfair competition from American imports like *Time* and *Reader's Digest*. Bluntly stated, the American products were being dumped in Canada. The editorial packages — that's magazine jargon for the pictures and stories — were already paid for by the American editors. The Canadian branch offices just stuck a few Canadian stories on top of their free (to them) material and sold ads at a rate no Canadian could match.[68]

In fact, international dumping of goods is a violation of the General Agreement on Tariffs and Trade, and national governments are expected to take countervailing measures against dumping; however, the technical definition of dumping is the sale of goods in foreign markets below their domestic cost of production. In this sense, the analogy between importing editorial packages into Canada for incorporation into domestic publications and international dumping is not strictly correct. Rather, what is involved is the exploitation by U.S. producers of market complementarities between Canada and the United States, or what economists have identified as economies of scope. Indeed, the transfer of editorial content is no different in any substantive way from foreign subsidiaries in Canada "importing" technology and managerial expertise from their parent companies to improve their productivity and competitiveness in the Canadian market in the production of soap or shoes or shoe-string potatoes.

The "unfair" competition argument has been applied in protectionist arguments for tariffs as well as for restrictions on foreign direct investment. A full consideration of these arguments would take us well beyond our principal mandate; hence, a brief evaluation must suffice.[69] The core of this protectionist argument relies on a notion that specialization is of limited value as a competitive tool. In contrast, critics of the domestic tariff have argued that its removal would lead to increased specialization in many Canadian manufacturing industries which, in turn, would lead to increased productivity among Canadian firms.[70] With increased specialization, many Canadian producers

could realize some of the economies of scale that are allegedly reaped by U.S. producers.

In transposing this argument to the cultural industries, there are two relevant empirical issues. How significant are the advantages of large firm size? What advantages, if any, inhere to producing and distributing a broad line of products? These issues can be effectively subsumed under a broader question. Can Canadian film producers and magazine and book publishers compete successfully against their larger U.S. counterparts by specializing their output and identifying market niches? We believe that the existing evidence is inadequate to answer this question conclusively. There is some anecdotal evidence, however, suggesting that smaller Canadian production units can compete successfully in "narrowly" defined artistic areas. For example, a number of small film and record producers have established a niche in the Canadian market, for example, books and records produced for *Quebec* alone. One point to be noted is that commercial and artistic success may not be coincident. A case in point is Jean Pierre Lefebvre, a Quebec filmmaker who has made sixteen features in the past sixteen years on budgets ranging from $14 000 to $360 000.[71] Lefebvre claims that his film *The Last Betrothal* is now the Canadian film that has been seen by the most people in the world. While the production of gala "Hollywood-style" movies such as *Star Wars* involves budgets of tens of millions of dollars, it is unclear why it is in the national interest for Canada to produce such Hollywood-style films. Do they contribute more to a sense of cultural identity than an artistically acclaimed, low-budgeted documentary?

Another illustration of the potential advantages of specialization is provided by the publishing field. Prior to the implementation of Bill C-58 in 1976, calls for protectionism against U.S. magazines emanated primarily from general interest magazines headquartered in central Canada (e.g., *Macleans*). These magazines were especially hard hit by U.S. competition. Small, regional (i.e., specialized) publications were apparently doing fairly well and did not support the protectionist calls of the central Canadian publishers. Indeed, eastern and western Canadian publishing interests described *Time* and *Reader's Digest* not as insidious but as valuable cultural attributes interpreting Canada to a widespread audience.[72]

It can be argued that the entire thrust of the Canadian film industry in recent years has been to develop volume and operate under what the Hollywood studios describe as "the home-run theory," that is, if you step up to the plate often enough you will get a big hit every so often.[73] The general failure of this strategy, to date, for Canadian producers attests to the fact that small producers will generally not be successful imitating the strategies of large producers. Moreover, if large-scale commercial success requires following a Hollywood format, which in

turn requires government intervention to ensure that Canadian producers reach minimum critical size, the relevance of the cultural identity argument is seriously compromised. The largest Canadian commercial film success to date, *Meatballs*, provides about as much insight into the "unique" aspects of Canadian society as its American clone, *Animal House*.

One related argument might be briefly cited at this point as it ordinarily derives from economies-of-scale considerations. Specifically, cultural nationalists such as the Canadian Conference of the Arts have expressed the concern that the distribution of Canadian cultural output is often in the hands of foreigners who have little interest in promoting the distribution of "Canadian content." The existence of scale economies and economies of integration are, in turn, suggested to contribute to the dominance of foreign-owned distributors in areas such as film and recordings.

Several points might be made concerning this argument. One is that barriers to entry into distribution activities (associated with the existence of scale economies) are potentially surmountable through co-operative associations of independent distributors. Secondly, it is unclear why foreign-owned distributors would be loath to distribute Canadian output if demand for such output existed at prices permitting an adequate rate of return. Finally, if exclusionary practices (such as refusal to deal) in certain areas of distribution make it difficult for independents to introduce new products, the seemingly appropriate tools to address this problem are the relevant provisions under the Combines Investigation Act.

Income Redistribution

One frequently hears the argument made (particularly by arts groups) that performers and other creative artists earn very low incomes and "deserve" more favourable treatment than is provided by the market system. Representative of this line of argument are the following statistics cited by the Canadian Conference of the Arts:

> The Writers' Union of Canada estimates that two-thirds of its members earn less than $5,000 a year from their writing. The Guild of Canadian Playwrights, one of the organizations representing writers for the stage, calculated that the average income from playwriting in 1978 was only $2,400. In that same year, the Periodical Writers Association of Canada found that only 15% of its membership was earning $14,000 a year from writing, and magazine writing is often assumed to be one of the more lucrative sides of the business. According to ACTRA, writers for English radio, television and films earned approximately $7 million in 1979, an average annual income of $5,185. Clearly very few writers are making a

living wage from writing, and we can probably assume that no poets are, since poetry is a field where the annual royalties rarely exceed a few hundred dollars.[74]

The American Federation of Musicians (AFM) has provided estimates that approximately 80 per cent of its Canadian members perform only as a hobby or as a source of secondary income. Similar estimates indicate that some 40 to 50 per cent of ACTRA and francophone Union des artistes members regard their performing activities as a form of moonlighting for additional income.[75] At the same time, the average income from performing for all performers is low. Just over 52 per cent of all members of Canadian Actors' Equity Association earned less than $2 500 from performing in 1978; just over 50 per cent earned less than $5 000.[76] Finally, a recent survey showed that visual artists in Ontario spent over 40 hours a week, on average, on their art and earned around $3 500 a year. With income from grants and teaching, however, the average income approached $18 000.[77]

In short, it seems clear that the majority of performers, writers, and other creative artists earn incomes (derived directly from cultural employment) that are below the average for the working population.[78] This observation is not, by itself, necessarily a recommendation for cultural intervention, since any chosen redistribution of income could (conceptually) be effected through an appropriate tax and transfer scheme. Even if one subscribed to the view that redistribution of income through the tax system is difficult to "target" to specific groups,[79] it still does not necessarily follow that creative artists, as a rule, "deserve" public assistance. The major consideration in this regard is that many successful full-time creative artists earn incomes that are well above the average for the general population, for example, Pierre Berton, Gordon Lightfoot, Mordecai Richler. It can be further argued that the many artists who do not realize successful full-time status understand the risks they run in this regard; that is, the incomes of creative artists are highly skewed with a small number making relatively high returns and the majority making substantially smaller returns.

Some fragmentary available data attest to the fact that full-time performers do not need additional income subsidies. For example, according to information provided by the AFM, about 2 000 musicians in Canada earned between $20 000 and $50 000 per year and a further 100 earned over $50 000 in 1976. These data do not necessarily assume that all the above reported income is derived directly from music performances. Assuming that those earning over $20 000 are full-time performers, and calculating that 20 per cent of the approximately 30 000 musicians are full-time, then about one third of all full-time musicians earned over $20 000 in 1976. It is therefore plausible to conclude that many full-time musicians earn incomes above the average ($10 400) for employed persons in Canada in 1976.[80]

It is not only studio musicians and those playing in more popular fields such as rock and pop who earn incomes above the average for the general population. Estimates obtained for 11 major Canadian symphony orchestras for the 1976/77 season indicate that the average fee per full-time player was approximately $18 250.[81] Since these symphonies comprise the largest classical music groups in Canada, they may be presumed to encompass the majority of full-time classical musicians. Hence, it would appear that full-time classical musicians also earn above-average incomes. Additional evidence on the economic status of other performing artists also suggests that the incomes of professional artists compare favourably with the average annual income per person employed.[82]

In summary, the income picture for most performers identifies three fairly distinct groups: a very few "stars," whose incomes from performing are very high; full-time performers, whose incomes are at least at the national average, and generally above it; and part-time performers, whose incomes from performing are very low. To be sure, the incomes of full-time performers might be lower were it not for the extensive cultural intervention extant in Canada. Also, more full-time performers would probably be part-time performers were it not for government cultural intervention. Nevertheless, the point remains that most full-time performers are currently in no need of public financial assistance. Moreover, it is dubious public policy to promote increased employment opportunities for part-time performers or artists solely to enable them to earn average or above-average incomes as full-time performers. Some greater market failure issue must be at stake to justify the direct and indirect costs associated with creating full-time jobs for a substantial number of marginal performers and other creative artists.

A related income distribution argument for government subsidies to culture can also be raised and dismissed fairly quickly. This is the argument that government intervention is necessary to make culture available to low-income people, by lowering prices of admission and other costs of attendance. In fact, arts audiences generally have incomes well above the average for the population. Those attenders with below-average incomes tend to be special groups (most notably students) whose household wealth — if not personal income — is above the population average.

A final point to be made is that culture protectionism is an extremely inefficient way to subsidize the incomes of specific groups of performers, writers, and so forth, if (indeed) such subsidization is considered to be in the overall public interest. More specifically, as noted above, cultural protectionism will increase the incomes of those factors of production with the most inelastic supply curves. These are unlikely to be low-income artistic personnel. Indeed, they are more

likely to be successful artists, technicians, producers, and so forth. If subsidies to specific artists are deemed necessary, direct grants are more efficient redistributive techniques than the various forms of cultural protectionism outlined in Chapter 1.

Summary and Conclusion

A wide assortment of conceptual justifications for government cultural intervention have been offered in the academic and popular literature. Many of these justifications rely directly or indirectly on the alleged existence of one or another market failure condition. Others relate to an "intrinsic" argument that the promotion of culture is good for society.

A critical evaluation of these various arguments calls into question the theoretical and/or empirical relevance of many of them. For example, given the absence of an acknowledged consensus within society on the goodness of a society with a high degree of cultural intervention, the argument for such intervention based on a "meritocracy" notion can be reduced to a claim that some tastes are better than others. This is clearly an unacceptable basis for government action in a democratic society. Market failure arguments for cultural intervention include the alleged existence of externalities. While there appears to be some theoretical basis for this argument, its relevance might be fairly limited. More specifically, effectively enforced copyright laws or the existence of some other exclusionary principal should enable artists and producers to capture a substantial portion of the financial rewards attending their output. As in industrial activities, the social rewards to truly innovative cultural efforts may substantially exceed the private returns to their creators, establishing a rationale for government support to experimental artistic efforts similar to those adduced for government R&D grants. Even this rationale for cultural intervention is qualified by the notion that the supply of experimental culture available to Canada could be relatively insensitive to government funding, particularly given Canada's small size in the world market for culture.

Cost-based arguments for cultural intervention are also popular, particularly among producers and cultural managers. One argument holds that productivity improvements are virtually impossible to effect in many cultural activities. This implies that the relative cost of these activities will rise necessitating higher prices and/or increased government support. Since the former alternative would lead to reduced audience size, the latter alternative is recommended as the only "viable" option. Another argument holds that a large critical size is required to achieve world-wide success in certain art forms, particularly film, magazine publishing, and recording. Canadian producers, in turn, allegedly need protection against foreign competi-

tion as well as other forms of financial assistance in order to achieve minimum critical size.

Both cost-based arguments are empirically suspect and — at best — identify specific special cases in the broad set of activities encompassing the culture industries. Many observers argue that efficiency savings are possible even in the labour-intensive live performing arts. New forms of technology make it possible for virtually all cultural organizations to reach much wider audiences than formerly possible, thereby allowing production costs to be spread over a potentially much larger market. Anecdotal evidence also calls into question the empirical relevance of the critical size threshold argument. More specifically, it would appear that small film producers, magazine publishers, and so forth can be both artistically and commercially successful by specializing their product to fit specific market niches. The economies-of-scale argument appears to be predicated on the adoption of a "Hollywood" approach to filmmaking. There is absolutely no social welfare justification, however, for promoting "Hollywood North" in Canada.

Perhaps the most problematic argument to address is the notion that indigenous culture is required to preserve the Canadian identity. The ephemeral nature of this argument, its emotional wallop for some people, as well as the intractable empirical problems associated with testing it, undoubtedly account for its success as a lobbying tool. However, important theoretical reservations can be raised about the argument, in principal, and (particularly) about the ability to formulate and implement operational policies in pursuit of the cultural identity objective. It would appear that the burden of proof for cultural intervention rests with the cultural nationalists who, in our opinion, have failed to provide a coherent, let alone convincing, case for the major protectionist policies that have been implemented by the Canadian government.

Notes

[1] The basis for a meritocracy argument for government intervention in culture industries is provided in David Austen-Smith, "On Justifying Subsidies to the Performing Arts," in *Economic Policy for the Arts*, edited by William S. Hendon, James L. Shanahan, and Alice J. MacDonald (Cambridge, Mass.: Abt Books, 1980), pp. 24 – 32.

[2] Canadian Conference of the Arts, *A Strategy for Culture* (Ottawa, 1980).

[3] See Iris Bradley, "Performing Arts Audiences," paper prepared for the Second Canadian Congress on Leisure Research, Toronto, April 1978. Another study concludes that per capita real expenditures on the performing arts (in the United States) have risen only 12 per cent in half a century, and as a percentage of disposable personal income they have actually fallen. See Hilda Baumol and W.J. Baumol, "On Finances of the Performing Arts During Stagflation," mimeo (New York: New York University, 1979).

[4] See David Cwi, "Public Support of the Arts: Three Arguments Examined," mimeo (Baltimore: Johns Hopkins University Center for Metropolitan Planning and Research, 1978). A study of visitors to the Museum of Fine Arts in Boston found that 83 per cent of visitors were in college, or were college graduates, or were planning to go to college. See Michael O'Hare, "The Audience of the Museum of Fine Arts," *Curator* 17 (June 1974): 126–57.

[5] In a later section, we will evaluate the argument that the absence of broad support for "high culture" is a manifestation of market failure.

[6] See Katherine Swinton, "Advertising and Canadian Cable Television — A New Problem in International Communications Law," *Osgoode Hall Law Journal* 15 (December 1977), p. 556.

[7] Isaiah Litvak and Christopher Maule, *Cultural Sovereignty: The Time and Reader's Digest Case in Canada* (New York: Praeger, 1974), p. 4.

[8] Broadcasting Act, R.S.C. 1970, c. B-11, section 3(g)(iv).

[9] See, for example, "Tax Breaks Urged to Encourage Arts," *The Globe and Mail* (25 November 1978), p. 43.

[10] See A.W. Johnson, "The Goal for Canada: Make TV More Canadian," *The Globe and Mail* (10 April 1980), p. 7.

[11] *Ibid.*

[12] As cited in Canadian Conference of the Arts, *op. cit.*, p. 4.

[13] See Jonathan Chevreau, "Earth Station Rules Are Limiting Manitoba TV Viewers Choice," *The Globe and Mail* (9 January 1982), p. B.5. In a recent shift in policy, the federal government announced that it would permit individual Canadians to mount their own satellite receiving dishes. See John Gray, "Broadcasting Policy Opens Doors to U.S.," *The Globe and Mail* (2 March 1982), p. 2.

[14] As cited in Litvak and Maule, *op. cit.*, p. 6. John Wood, head of English Theatre at the National Arts Centre in Ottawa, has been quoted as saying: "But if this country put as much money into the arts as it does into defence, my God, we'd be healthy. We'd be the greatest country on earth." See Max Wyman's column, *Vancouver Sun* (20 November 1980), p. D.10.

[15] Hugh G.J. Aitken, "The Changing Structure of the Canadian Economy with Particular Reference to the Influence of the United States," in Hugh G.J. Aitken *et al.*, *The American Economic Impact on Canada* (Durham, N.C.: Duke University Press, 1959), pp. 3–35.

[16] For a fuller discussion of intergovernmental conflict over cable regulation, see Swinton, *op. cit.* For a sceptical view of the possibility to unify anglophone and francophone cultures through a "national" culture or symbol, see Raymond Breton, Jeffrey G. Reitz and Victor F. Valentine, *Cultural Boundaries and the Cohesion of Canada* (Montreal: The Institute for Research on Public Policy, 1980).

[17] A recent court decision acquitting a British Columbia property management company charged with operating an illegal earth station is discussed in Jonathan Chevreau, "B.C.'s Open Skies Satellite Policy Seen as 'Totally Unacceptable'," *The Globe and Mail* (6 January 1982), p. B.3.

[18] For example, George Heiber, Canadian General Manager of United Artists, disputes the notion that Canadians should be looking to express themselves as Canadians in film. His view is that "Film is world-wide; it shouldn't be localized." See Adele Freedman, "Films Business Side Stressed at Hearings," *The Globe and Mail* (7 July 1981), p. 14. The Summary of Briefs and Hearings filed by the Applebaum-Hébert Commission shows an extraordinary lack of agreement among presenters to the Commission as to what constitutes the Canadian identity. Some briefs (such as the one submitted by the Association of Canadian Television and Radio Artists) explicitly reject the notion that national units are a primary objective of the arts. See Arnold Edinborough, "What Cultural Policy for Canada? Stand Well Back," *The Financial Post* (6 February 1982), p. 28.

[19] Canada, Royal Commission on National Development in the Arts, Letters and Sciences, 1949–51, *Report* (Ottawa: King's Printer, 1951).

[20] *Ibid.*, p. 4.

[21] David W. Johnson, *Educational Psychology* (Englewood Cliffs, N.J.: Prentice-Hall, 1979), p. 120.

[22] Alex Inkeles and Daniel J. Levinson, "National Character: The Study of Modal Personality and Sociocultural Systems," in *The Handbook of Social Psychology*, 2d ed., edited by Gardner Lindzey and Elliot Aronson (Reading, Mass.: Addison-Wesley, 1954), Vol. 4, pp. 418–506.

[23] See Inkeles and Levinson, *op. cit.* A cynical view of the attempt to define the Canadian identity is offered in the following quote: "Canada chased its identity in ever-diminishing circles til it finally disappeared up its own aspirations." See Paul Grescoe, "Eric Nichol's Toys and Pains of Humor," *Macleans* 92 (19 November 1979): 20b–20c.

[24] Terry Poulton reports that Briane Nasimok, a Canadian comic, convulsed a Los Angeles nightclub crowd by overplaying his nationality, showing up in a parka and snowshoes. See Terry Poulton, "Canadians Cut a Swath in Cutthroat Comic World," *The Globe and Mail* (14 November 1981), p. 21. Perhaps the federal government will mandate the wearing of snowshoes?

[25] Michael J. Trebilcock, Douglas Hartle, J. Robert S. Pritchard, and Donald D. Dewees, *The Choice of Governing Instrument: Some Applications*, Regulation Reference Technical Report No. 12 (Ottawa: Economic Council of Canada, 1981).

[26] Karl W. Deutsch, *Nationalism and Social Communication: An Inquiry Into the Foundations of Nationality*, 2d ed. (Cambridge, Mass.: MIT Press, 1966).

[27] Canada, Royal Commission, *op. cit.*, p. 51.

[28] As quoted in Ian Anderson, "Through a Lens Looking Darkly," *Macleans* 93 (28 April 1980), p. 24.

[29] B.K. Sandwell, "Present Day Influences on Canadian Society," in *Royal Commission Studies: A Selection of Essays Prepared for the Royal Commission on National Development in the Arts, Letters and Sciences* (Ottawa: Edmond Cloutier, Printer to the King's Most Excellent Majesty, 1951), pp. 6–11.

[30] A formal proof of this proposition is provided in the Appendix.

[31] These arguments are reviewed in Dick Netzer, *The Subsidized Muse* (Cambridge: Cambridge University Press, 1978).

[32] See Steven Globerman and Mitchell P. Rothman, *An Economic Analysis of a Performers' Right* (Ottawa: Minister of Supply and Services Canada, 1981).

[33] See, for example, Edwin Mansfield *et al.*, "Social and Private Rates of Return From Industrial Innovations," *The Quarterly Journal of Economics* 91 (May 1977): 221–40.

[34] See Hans Abbing, "On the Rationale of Public Support to the Arts: Externalities in the Arts Revisited," in *Economic Policy for the Arts*, edited by William S. Hendon, James L. Shanahan, and Alice J. MacDonald (Cambridge, Mass.: Abt Books, 1980), pp. 34–42.

[35] See F.F. Ridley, "Comment on Abbing," in *Economic Policy for the Arts*, edited by William S. Hendon, James L. Shanahan, and Alice J. MacDonald (Cambridge, Mass.: Abt Books, 1980), pp. 42–46.

[36] It might be noted in passing that a similar concern has been raised apropos research and development grants. See D.G. McFetridge, *Government Support of Scientific Research and Development: An Economic Analysis*, Research Report Study No. 8 (Toronto: University of Toronto Press for Ontario Economic Council, 1977).

[37] For a review of this argument, see McFetridge, *op. cit.*

[38] See Netzer, *op. cit.*

[39] To be sure, patronage of the arts, often by private citizens, has a long tradition. In the Middle Ages these patrons were usually members of the nobility or clergy. In the nineteenth and twentieth centuries, these were most often industrialists and other private philanthropists. However, philanthropic contributions tended to be concentrated in specific activities such as sculpture, native painting, and poetry. In Britain, for example, music and the performing arts were, for the most part, supported by public attendance until well into the twentieth century. See Bernard Ostry, *The Cultural Connection: An Essay on Culture and Government Policy in Canada* (Toronto: McClelland and Stewart, 1978).

[40] See Alan Peacock, "Preserving the Past: An International Economic Dilemma," *Journal of Cultural Economics* 2 (December 1978), pp. 1–12.

[41] The essence of this argument can be captured in the oft-heard statement: "I never go to the symphony, but I'm glad it's available."

[42] This point is made quite forcefully in R.N. McKean and Jora Minasian, "On Achieving Pareto Optimality — Regardless of Cost," *Western Economic Journal* 4 (October 1966): 14–23.

[43] For an evaluatitn of the limitations of existing copyright legislation in Canada, the interested reader should see Economic Council of Canada, *Report on Intellectual and Industrial Property* (Ottawa: Information Canada, 1971).

[44] Available evidence of the supply response of artistic personnel to higher monetary rewards is reviewed in Globerman and Rothman, *op. cit.*

[45] For a discussion of the evidence on this issue, see James L. Shanahan, "The Arts and Urban Development," in *The Arts and Urban Development: Critical Comments and Discussion*, edited by William S. Hendon (Akron, Ohio: University of Akron, Center for Urban Studies, 1980), pp. 6–12. A sceptical view of the role of culture in attracting skilled labour to a city is provided in the following quote from Rick Emberley, President of the St. John's Newfoundland Board of Trade, reacting to an ad placed by the Port of Halifax in the Calgary-based *Oilweek* extolling the cultural virtues of Halifax. Emberley noted: "The oil industry goes where the oil is, not where the symphony orchestra plays." See Barbara Yaffe, "Halifax Uses Cultural Bait to Entice Offshore Oil Spinoff Business to City," *The Globe and Mail* (21 April 1981), p. 9.

[46] For example, the owner of the Royal Alexandra Theatre in Toronto, Ed Mirvish, also owns a number of restaurants near his theatre. The popularity of "dinner theatre clubs" also illustrates the relevance of this integration argument.

[47] See James Purdie, "Roberts Proposes New Policy on the Arts," *The Globe and Mail* (5 May 1979), p. 39.

[48] To be sure, many cultural nationalists have a basic antipathy to the market system. Evaluating this bias would take us well outside our mandate in this study.

[49] Canadian Conference of the Arts, *op. cit.*, p. 77.

[50] See Netzer, *op. cit.*, p. 25.

[51] See S. Globerman, "Price Awareness in the Performing Arts," *Journal of Cultural Economics* 2 (December 1978): 27–42. Netzer, *op. cit.*, argues that subsidized dance touring and television performances in the United States created a very large new audience for dance, principally by overcoming an information failure.

[52] See S.H. Book and S. Globerman, *The Audience for the Performing Arts* (Toronto: Ontario Arts Council, 1975).

[53] See, for example, Tibor Scitovsky, "Arts in the Affluent Society: What's Wrong With the Arts Is What's Wrong With Society," *American Economic Review* 62 (May 1972): 62–69.

[54] Canadian Conference of the Arts, *op. cit.*, p. 75.

[55] See Book and Globerman, *op. cit.*

[56] See, for example, Canadian Conference of the Arts, *op. cit.*, p. 75.

[57] For an explication of this thesis, see William J. Baumol and William G. Bowen, *Performing Arts — The Economic Dilemma* (Cambridge, Mass.: MIT Press, 1966). The essence of the Baumol and Bowen thesis has been stated quite succinctly by Bernard Ostry: "Without government subsidies the performing arts would falter and die. . . ." See Ostry, *op. cit.*, p. 197.

[58] Indeed, some anecdotal evidence that demand for musical shows such as *The Pirates of Penzance* is price insensitive is provided in Richard Corliss, ". . . And Another Boffo Season," *Time* 118 (5 October 1981): 68–74.

[59] This criticism has been raised by R. Weiss, "The Supply of the Performing Arts," in *The Economics of the Arts*, edited by Mark Blaug (London: Martin Robertson, 1976), pp. 260–72.

[60] Some observers argue that labour unions bargain more relentlessly with arts organizations because they believe government subsidies will ratify their outrageous demands. See Melvyn Krauss, "An Arts Policy to Benefit the Rich?" *The Wall Street Journal* (2 October 1981), p. 23.

[61] See K. King and M. Blaug, "Does the Arts Council Know What It Is Doing?" in *The Economics of the Arts*, edited by Mark Blaug (London: Martin Robertson, 1976), pp. 101–25; and Robert Hutchison "Economic Aspects of Arts Subsidy in England," in *Economic Policy for the Arts*, edited by William S. Hendon, James L. Shanahan, and Alice J. MacDonald (Cambridge, Mass.: Abt Books, 1980), pp. 56–63. A sceptical view of the ability of arts organizations to price discriminate effectively is found in Henry Hansmann, "Nonprofit Enterprise in the Performing Arts," *Bell Journal of Economics* 12 (Autumn 1981): 341–61.

[62] Higher premiums can probably also be charged for earlier-run performances than is currently the conventional practice.

[63] This supposition is supported in audience surveys. See Book and Globerman, *op. cit.*

[64] For a discussion of how these techniques promoted ticket sales for a major U.S. arts organization, see Roger Ricklefs, "A Cultural Institution Succeeds by Marketing Its Wares Aggressively," *The Wall Street Journal* (23 January 1979), p. 1. The recent success of the Canadian Opera Company and the National Ballet of Canada in their efforts to market more aggressively is described in Stephen Godfrey, "A Tale of Two Hard Sells," *The Globe and Mail* (8 May 1982), p. ET3.

[65] See Cynthia Saltzman, "Arts Groups Hope to Cash in on Growing Cable Craze," *The Wall Street Journal* (26 March 1981), p. 23.

[66] Some evidence bearing on this assertion is presented in the following chapter.

[67] See Johnson, *op. cit.*, p. 7.

[68] See Peter Gzowski, "We All Win in the Newsstand Battle," *Toronto Star* (18 January 1979), p. A3.

[69] The interested reader can find a critical review of these arguments in D.J. Daly and Steven Globerman, *Tariff and Science Policies: Applications of a Model of Nationalism* (Toronto: University of Toronto Press for Ontario Economic Council, 1976); and S. Globerman, *U.S. Ownership of Firms in Canada: Issues and Policy Approaches* (Montreal: C.D. Howe Research Institute, 1979).

[70] See Daly and Globerman, *op. cit.*, for a review of this literature.

[71] See "Quebec Filmmaker Low Budget Success," *The Globe and Mail* (26 March 1981), p. 14.

[72] See Litvak and Maule, *op. cit.*, p. 50. A recent study also concluded that it is possible to publish some excellent and successful books at the rate of a few per year. This same study argues that new technological advances in the printing industries are now suppressing the economies of scale normally associated with larger print runs. The system utilizes computerized typesetting and offset printing presses. Furthermore, diseconomies of scale in promotion and distribution can be offset to some extent by co-operative joint ventures involving small publishers. See Bureau of Management Consulting, *The Publishing Industry in Canada*, study prepared for the Department of Secretary of State (Ottawa: Minister of Supply and Services Canada, 1977).

[73] See Charles Schreger, "Canadian Movie Industry Hollywoodized," *The Ottawa Citizen* (13 September 1979), p. 59. An elaboration of this "Hollywood" perspective is provided by Stanley Hartt, a Montreal lawyer who arranges film financing deals: "It's a brass-ring type of industry. The trick is to keep your head above water, so you live to play another day, because maybe once in a hundred you'll make an absolute killing — you know, a Jaws or a Star Wars — and get your money back 20, 30 or even 100 times." See "Movie Flops Lower Investment Despite Incentives," *The Globe and Mail* (8 August 1981), p. B.8.

[74] See Canadian Conference of the Arts, *op. cit.*, p. 98.

[75] Bureau of Management Consulting, *The Film Industry in Canada*, study prepared for Department of Secretary of State (Ottawa: Minister of Supply and Services Canada, 1977).

[76] See Globerman and Rothman, *op. cit.*, p. 19.

[77] See John Bentley Mays, "Report Paints a Daunting Portrait of the Artist as a Struggling Pauper," *The Globe and Mail* (5 January 1982), p. 1.

[78] By comparison, total wages and salaries per employed person in Canada were $10 400 in 1976. See Globerman and Rothman, *op. cit.*, pp. 16–17.

[79] For a discussion of this issue, see Steven Shavell, "A Note on Efficiency vs. Distributional Equity in Legal Rulemaking: Should Distributional Equity Matter Given Optimal Income Taxation?" *American Economic Review* 71 (May 1981): 414–18.

[80] See Globerman and Rothman, *op. cit.*, pp. 16–17.

[81] *Ibid.*, p. 17.

[82] See Christine Panasuk, *An Analysis of Selected Performing Arts Occupations* (Ottawa: Canada Council Information Services, July 1974). Some further evidence on this point is provided in a recent Canada Council survey of members of the Association of Canadian Television and Radio Artists (ACTRA), Canadian Actors' Equity Association, and the Union des artistes. The survey found that over four fifths of the survey group "spent less than 80% of its time in the performing arts during 1979. And about 60% of these actors and directors who, by choice or circumstance, did not make a full-time living in the performing arts earned less than $5,000 from their work in this area. On the other hand, . . . almost 60% of those who spent 80% or more of their time in the performing arts earned more than $15,000 from their professional work in 1979." See Statistics Canada, *Culture Statistics*, Vol. 4, No. 4, May 1981 (Ottawa: Minister of Supply and Services Canada), p. 2.

An Evaluation of the Effects of Cultural Intervention

4

Introduction

The analysis conducted to this point suggests quite strongly that many aspects of government intervention into cultural activities cannot be easily rationalized as public-sector responses to conditions of market failure. A plausible alternative explanation of the presence of government intervention in these cases is provided by public-choice models of political "markets" described briefly in Chapter 2. Even in cases where potential issues of market failure do exist, it is far from clear that the benefits of government intervention outweigh the costs.

Ideally, one might undertake case studies of each of the major instruments of cultural intervention identified in Chapter 1 with the goal of evaluating whether specific applications of the chosen instruments can be rationalized on grounds of improving efficiency and/or addressing a social inequity. Where possible, statistical analysis might shed light on the *ex post* allocative and distributional consequences of each major instrument. A particular point of interest in this regard would be an empirical investigation of the key deduction from models of economic nationalism: that is, cultural protectionism will increase the costs of cultural activities, while transferring income from the general population to a relatively small group of individuals possessing above-average education and income levels.

As a practical matter, publicly available data are inadequate for evaluating (in a rigorous statistical manner) the distributional impacts of cultural intervention. Consequently, our limited efforts to do so in this chapter should be seen as exploratory rather than definitive in nature. Likewise, our analysis of the allocative effects of cultural intervention is designed to provoke discussion and further research rather than resolve outstanding empirical issues.

The Anticipated Effects of Cultural Intervention

Before undertaking an evaluation of cultural intervention, it is useful to consider the anticipated effects of various forms of cultural

intervention. More specifically, the instruments of cultural intervention described in Chapter 1 can be conceptually grouped into three broad categories: (1) direct government expenditures and subsidies or indirect subsidies (e.g., tax expenditures) to non-profit cultural organizations such as performing arts groups, museums, and so forth; (2) direct or indirect subsidies to profit-oriented producers, for example, the 100 per cent Capital Cost Allowance for Canadian feature films, the exemption of books from federal government and most provincial government sales taxes and so forth; and (3) various forms of regulation, most often involving restrictions on competition from foreign producers, for example, Canadian-content requirements for television and radio broadcasters, the increasingly common practice of provincial ministries of education to restrict the use of U.S. textbooks in elementary and high schools,' and so forth.

Subsidies to Non-Profit Organizations

The practical effect of direct or indirect government grants to cultural organizations is to provide such organizations with the financial capacity to expand their activities. In a more technical sense, increased grants allow cultural organizations to attempt to move along their "expansion paths." For non-profit organizations the forms taken by this attempted expansion will depend upon both the preferences of the organizations involved, as well as the priorities of the granting agencies. For example, performing arts organizations might attempt to increase the number of performances and/or increase the "lavishness" of performances or undertake more extensive (and costly) touring activities. Alternatively, or in addition, arts groups may use subsidies to keep ticket prices from rising in order to encourage maximum audience sizes or to encourage lower-income individuals to attend their performances. The granting agencies condition the response of cultural organizations to increased resources by evaluating grant applications partially on the basis of the planned uses for the grants. For example, requests for increased subsidies may be more favourably treated if organizations promise to perform or produce a greater number of "Canadian" works, or provide more community services such as children's workshops and so forth.[2]

The intended effects of direct or indirect government grants might not be realized as a consequence of various intermediating processes. For example, an attempt by cultural organizations to expand output might lead to increases in the costs of various factors of production, thereby reducing, or even eliminating the capacity of cultural organizations to increase output.[3] Another potential indirect consequence of government funding of cultural organizations derives from possible interactions among the components of total revenue. For example, a number of studies suggest that increased government

subsidies contribute to reductions (not necessarily offsetting) in private contributions to cultural organizations.[4]

In sum, direct grants or indirect grants taking the form of tax expenditures aimed at non-profit cultural organizations can have various potential effects. At one extreme, costs of production may increase and/or other sources of revenue may decrease so that the output of recipient organizations remains effectively unchanged. At the other extreme, different dimensions of output (e.g., full-cast performances, workshops, school performances, and so forth) may expand according to the objectives of the cultural organizations and the granting agencies with no significant impact upon costs. In fact, the most likely results are somewhere in between these two extremes.

Subsidies to Profit-Oriented Organizations

The impact of direct grants and expenditures and tax expenditures on profit-oriented cultural organizations can be analysed in a manner analogous to that employed for non-profit organizations. Specifically, the additional revenue should enable profit-oriented cultural organizations to move along their expansion paths in a manner dictated by their objectives. In the case of profit-oriented organizations, however, it is presumed that maximizing the present value (or share price value) of the organization is the pre-eminent, if not the singular, objective of the organization. These organizations can therefore be expected to use increased public funds to increase long-run profitability subject to any constraints that are imposed by public agencies.

Long-run profit maximization could encompass profit-oriented Canadian cultural organizations using public subsidies to produce output geared primarily for the U.S. or other foreign markets. It could also encompass such firms reducing expenditures out of their own capital concomitant with an increase in public funding. As in the case of non-profit organizations, a general attempt by profit-oriented organizations to expand output could lead to factor prices being bid up significantly, thereby dampening, if not eliminating, any actual expansion of output.

Cultural Protectionism

The impacts of government regulations designed to protect domestic producers from foreign competition are potentially complex. Some insight into these potential effects is provided by the literature on the economic effects of government regulation. This literature suggests that where the market structure of a domestic industry is highly competitive, that is, where it is characterized by a large number of relatively small producers and no significant entry barriers, restrictions on foreign competition may have no important long-run impact

upon price levels in the industry or on the profits earned by firms in the industry.[5] Rather, the major impact may be an expansion of the domestic sector at the expense of foreign producers presuming that the industry is characterized by no significant diseconomies of scale. However, where the domestic industry's market structure is oligopolistic in nature, restrictions on foreign competition may facilitate more effective implicit "collusion" on the part of domestic producers, with a likely increase in the prices paid by domestic consumers. Reduced competition could also permit domestic firms to become more "X-inefficient," thereby raising the cost level of domestic firms, where X-inefficiency may be thought of as organizational slack broadly considered.[6]

The ultimate beneficiaries of the higher prices charged domestic consumers owing to cultural protectionism need not be domestic producers. For example, Canadian producers of television programs and recorded music need not be long-run beneficiaries of Canadian-content broadcasting requirements. Nor will all domestic textbook publishers necessarily be the long-run beneficiaries of government policy requiring public schools to purchase Canadian texts. In both cases, the ultimate beneficiaries may be scarce creative or technical factors of production such as writers, producers, and the like. More specifically, competition among domestic producers for the services of talented Canadian writers and producers could lead to a "bidding away" of the "rents" initially captured by domestic producers as a result of reduced competition.[7] In certain instances, the long-run beneficiaries may be lawyers, accountants, and other professionals who help qualify domestic producers for the protection or government "hand-out" in question.

As noted in Chapter 2, the long-run beneficiaries of cultural protectionism are likely to be those factors of production with the most inelastic supply curve. As Migué notes, in the short run, most domestic factors of production in the protected industry will benefit from increased barriers to foreign competition.[8] Thus, it is not surprising to find fairly broad-based support for protectionist measures on the part of both producers and skilled labour in a given domestic industry.

In summary, the impact of various forms of cultural intervention will depend upon a set of factors: the nature of the intervention, the objectives of the cultural organizations impacted, and the objectives of the relevant government policy makers and bureaucrats, the supply and demand relationships in the markets for final output and for factors of production, and the efficiency and effectiveness with which any given policy is implemented. As a practical matter, it is impossible to attribute the observed consequences of government intervention to each separate factor in any precise way. Nor is it possible to conclude that the observed consequences will be durable ones, since (at any

point in time) we may be observing transitory effects of government policy. However, it still seems a useful exercise to evaluate the apparent consequences to date of major forms of cultural intervention. At a minimum, such an evaluation will provide some insight into whether the results achieved to date are consistent with promoting broad public-policy objectives, for example, improving allocative efficiency or promoting "fairer" treatment of specific segments of society, or whether they are achieving purposes (intended or unintended) that serve no obvious broad public purpose.

Canadian-Content Requirements for Broadcasters

Several points may be noted about the CRTC Canadian-content requirements for AM and FM radio broadcasters.[9] These content requirements can be seen as providing a protected market for the output of producers of Canadian-content recordings and of other Canadian-content broadcast material such as public-affairs shows, documentaries, and the like. The available evidence suggests that the content requirements have encouraged an expansion in recording activity in Canada. This expansion is indicated by data in Table 4.1 that show that the net value of sales of domestic phonograph records in Canada approximately doubled over the period 1973–1977. The more specific expected result of the Canadian-content requirements is an expansion in recorded Canadian-content material. The growth in records containing Canadian content is shown in Table 4.2. In the eight-year period from 1970 to 1978, the number of Canadian-content singles increased by 177 per cent, while the number of Canadian-content albums increased by approximately 220 per cent. This was clearly faster than the increase in all records released domestically,

Table 4.1
NET VALUE OF SALES OF DOMESTIC PHONOGRAPH RECORDS

Year	$ Thousands
1973	73 603
1974	92 736
1975	100 847
1976	112 864
1977	139 321
1978	221 297*

Sources: Jim Keon, *A Performing Right for Sound Recordings* (Ottawa: Minister of Supply and Services Canada, 1980), p. 30, and Statistics Canada, *Culture Statistics — Recording Industry* (Ottawa: Minister of Supply and Services Canada, 1980), Table 1.

* In 1978, record and tape sales revenues were aggregated.

Table 4.2
RECORDS RELEASED IN CANADA

	1970	1971	1977	1978
Canadian-content singles	252	250	526	697
Total all singles	1 618	1 331	2 310	2 513
Percentage having Canadian content	15.6	18.8	22.8	27.7
Canadian-content albums	180	141	499	575
Total all albums	1 780	1 717	3 148	3 332
Percentage having Canadian content	10.1	8.2	15.8	17.2

Sources: Jim Keon, *A Performing Right for Sound Recordings* (Ottawa: Minister of Supply and Services Canada, 1980), p. 46, and Statistics Canada, *Culture Statistics — Recording Industry* (Ottawa: Minister of Supply and Services Canada, 1980), Table 2.

since the percentage of all records released having Canadian content increased over the period.[10]

On the basis of available information, it is impossible to determine the beneficiaries of the Canadian-content requirement for radio broadcasters. It is likely that producers of Canadian-content records would constitute one group of beneficiaries, at least in the short run. This is because sales of records are positively related to air play.[11] Unfortunately, it is not possible to segment the profit performance of Canadian record producers by the extent of their Canadian-content recordings; however it is clear, from the data in Table 4.3, that the profitability of major Canadian record companies did increase sharply shortly after the full imposition of the Canadian-content requirements. By way of comparison to data in Table 4.3, net profit as a percentage of sales for record companies in the United States was less than 5 per cent in 1974.

The expansion in recording activity is consistent with an increase in the profitability of domestic recording companies. After all, increased profitability is the market signal that encourages the expansion of output. Since entry into the production sector of the recording industry is relatively easy, one would anticipate that the entry of new firms and the expansion of existing ones would (over time) reduce the demand for already produced Canadian-content records. Competition among record companies to sign the relatively few "star" Canadian performers and to employ the more proficient studio musicians and composers would also lead to cost increases for domestic record companies. Both factors would contribute to decreased profitability of domestic record companies. More specifically, both would lead to a reduction in "above-average" rates of return earned by domestic recording companies.

Table 4.3
PROFITABILITY OF MAJOR CANADIAN RECORD COMPANIES

Year	Profits as a Percentage of Sales	Profits as a Percentage of Assets
1971	3.4	5.1
1972	5.9	9.1
1973	4.8	7.1
1974	7.8	11.7
1975	9.6	14.3

Source: Jim Keon, *A Performing Right for Sound Recordings* (Ottawa: Minister of Supply and Services Canada, 1980), p. 31.

Some anecdotal evidence in this regard is provided by the observation that in 1980, 74 per cent of small, independent Canadian record producers and 44 per cent of the medium-sized producers lost money.[12] To be sure, record producers in other countries also suffered below-average profit performances in 1980, so this observation may be specious evidence of a decline in record company profitability; however, the fact that studio musicians in Canada have enjoyed substantial income increases in the past few years,[13] along with the fact that rates for union musicians in Canada are several times higher than those comparable unions in the United States,[14] suggest that increased demand for Canadian-content recordings has resulted in increased incomes for musicians and, probably, for other technical recording personnel. It is also likely that certain star performers in Canada who were able to negotiate royalty agreements on sales of records recorded prior to 1973 have enjoyed a windfall gain from the imposition of Canadian-content requirements. This is because most Canadian "Top 40" format stations play excessive amounts of older Canadian hit recordings to satisfy the Canadian quota.[15]

It is plausible to argue that increased revenues realized by Canadian record producers and specific factor inputs came partially at the expense of radio and, for that matter, television broadcasters, since the latter were forced to substitute less popular (and often more expensive) Canadian recorded material for more popular foreign (primarily U.S.) recorded material. We have already noted evidence that Canadian television viewers prefer U.S. popular entertainment programs to comparable Canadian programs. That Canadian-content recordings may, on balance, be less popular than the recordings they displace is suggested by the fact that while at least 30 per cent of the musical compositions broadcast by a station or network operator must qualify as "Canadian," Canadian-content singles entering Billboard Top 100 as a percentage of the total number of singles entering Billboard Top 100 are well below 30 per cent.[16] Additional evidence is

provided by the fact that private broadcasters do not voluntarily exceed Canadian-content requirements and occasionally fall below the minimum requirements. Furthermore, television broadcasters provide an overwhelming amount of U.S. programming during prime time.[17]

Since Canadian broadcasters earn rates of return that are apparently well above risk-adjusted costs of capital,[18] the profit penalties imposed by Canadian-content requirements are hardly a reason to shed crocodile tears on behalf of Canadian broadcasters; however, it is unlikely that the broadcasters are bearing a significant portion of the cost penalties imposed by the content requirements. This is because other aspects of broadcasting policy restrict the direct and indirect competition provided by U.S. broadcasters. For example, Bill C-58, which disallows income tax deductions for advertisements placed on U.S. border stations, has apparently had the anticipated effect of encouraging substantially higher advertising rates charged by Canadian broadcasters. CRTC program substitution policies, which require that when a show runs simultaneously on U.S. and Canadian television, cable companies carrying the U.S. show must substitute the Canadian broadcast, also allow Canadian stations to raise advertising rates. Policies preventing cable companies from introducing pay-TV and restrictions on the use of home satellites have (until recently) protected the advertising market for domestic broadcasters.

Available evidence indicates that the profit rates of Canadian broadcasters have, if anything, increased since 1973.[19] Furthermore, the profits of private broadcasters soared after Bill C-58 took effect. For example, at CITY-TV in Toronto, revenues increased 43 per cent in the first year that C-58 took effect, and climbed a further 35 per cent in the second year.[20] Since higher domestic advertising rates will ultimately be passed on to consumers in the form of higher prices for all advertised goods and services, the costs of Canadian-content requirements can be likened to a general sales tax. On balance, such a tax is likely to be regressively distributed, since more heavily advertised convenience goods such as food comprise a higher proportion of the household budgets of lower-income groups. Thus, the income redistribution effects of Canadian-content requirements may, indeed, encompass income transfers (on balance) from lower-income to higher-income groups.

There is another implicit tax component of the Canadian-content requirements that involves a potential transfer of income from foreign to domestic recording artists and supporting personnel. Specifically, less air time for foreign recordings and more air time for domestic recordings should, all other things being constant, encourage increased sales of domestic recordings at the expense of foreign recordings. Canadian royalty payments to foreign artists and other royalty outflows attending the broadcast and sales of foreign record-

ings should therefore decrease. Barring retaliation on the part of foreign governments, this transfer of income from foreign to domestic artists raises no welfare concerns; however, it might be noted that Bill C-58 led to U.S. retaliation in the form of a penalty on the Canadian tourist industry.[21] This observation merely underscores the fact that the effects of government intervention are highly complex and often difficult to identify.

The overall effects of Canadian-content requirements are difficult to evaluate for reasons noted earlier. In particular, the general relevance of the "national defence" argument for promoting indigenous culture is highly questionable. Even if there were broad public benefits associated with substituting Canadian recordings for foreign recordings, it is clear that listeners and viewers, on balance, suffer reductions in their consumers' surplus, if for no other reason than their freedom of choice is restricted. The potential distribution effects of the content requirements, on balance, seem regressive; that is, a relatively small number of individuals, many of whom enjoy above-average incomes, benefit at the expense of the general population. To this extent, the consequences of Canadian-content requirements are consistent with those adduced from models of economic nationalism.

The One Hundred Per Cent Capital Cost Allowance

The 1974 Amendment to the Income Tax Act authorizing an increase from 60 per cent to 100 per cent Capital Cost Allowance for investors in certified Canadian films has had the undisputed effect of stimulating a sharp expansion of the Canadian feature film industry. The total annual dollar volume of the industry went from $19 million in 1977 to $165 million in 1979. The total number of films produced went from 24 in 1978 to 50 in 1980.[22] Average film budgets in English Canada increased from $526 000 in 1977 to $3.3 million in 1980. Private financing of Canadian films increased correspondingly. Specifically, investment in Canadian films increased from around $20 million in 1977 to $140 million in 1979, but fell to $105 million in 1980.[23]

Presumably, the purpose of the Capital Cost Allowance was not to stimulate an increase in feature filmmaking *per se* but to encourage an increase in feature films contributing to a heightened sense of Canada's identity. While observers may disagree about what constitutes the Canadian identity, virtually all agree that the bulk of the feature films produced under the Capital Cost Allowance did not contribute to promoting its awareness, whatever "it" is. Indeed, many recent Canadian films took great pains to disguise their Canadian origins, for example, by disguising Canadian locales as U.S. cities. The "Americanization" of the product produced under the Capital Cost Allowance should have come as no surprise to policy makers. As noted

above, profit-oriented cultural organizations will allocate public and private funds to maximize long-run profits. Even with a relatively small probability of commercial success, the expected value of a feature film "hit" in the United States exceeds the expected value of a certain film success in the Canadian market exclusively.

Since the U.S. film industry is relatively competitive, one would not anticipate investors in Canadian feature films to earn substantially above-average, risk-adjusted rates of return. And, indeed, this is precisely the case. In fact, most films made during the boom years of 1979 and 1980 reputedly will not fully repay their backers.[24] One would not anticipate even the most risk-loving investor to continue to back losing movies as long as the marginal tax rate remains below 100 per cent. It seems reasonable to presume, therefore, that the feature film sector will contract until investors earn average rates of return on their investments for the risk class of their investment. Since part of their investment is subsidized by Canadian taxpayers, one would still expect a greater percentage of commercial failures among Canadian feature films than among U.S. feature films, since no such generous film tax shelter exists in the United States and, hence, a greater share of the cost of unsuccessful films is borne directly by private investors in the United States.

It is unclear precisely who the major beneficiaries have been of the 100 per cent Capital Cost Allowance. Casual empiricism suggests, however, that individuals brokering intermediation services between film investors and film producers have enjoyed a surge in demand for their services. They include not only brokerage companies but also lawyers and accountants, particularly those possessing a specialization in entertainment law, and promoters and managers of film packages. Some indication of the growth in intermediation services is provided by the following statistic. "In 1968, financing and overhead costs accounted for an average 4.8% of Canadian feature film budgets; in 1978, these charges took up 20.04%, rising to an average 25% in 1979. This increase is not applicable to French and low budget English productions which rarely issue public offerings."[25] Since the supply of personnel involved in the provision of these intermediation services is likely to be relatively inelastic, a surge in demand for their services is likely to generate substantial economic rents for the factors involved.

It is also apparently the case that the percentage of Canadian participation in key creative roles was lower in Capital Cost Allowance-financed films than in other films. This argument is supported by data presented in Table 4.4. The putative explanation of this phenomenon is that in response to their real or presumed demand for "stars" to secure investment, producers directed top performers' roles and fees almost exclusively to foreign and expatriate Canadian talent. There has also been considerable direct and indirect involve-

Table 4.4
CANADIAN PARTICIPATION BY FILM CATEGORY

Category	Average Budget	Percentage of Canadian Participation in Executive Producer/Key Creative Roles
Co-production	$4.2 million	32 (Scripts — 0%)
English	Over $5 million	55
	$3–5 million	64 (Second Actor Category — 0%)
	$1.3 million	70.7
	Under $1 million	97.3
French	$0–4 million	98.9

Source: Canadian Conference of the Arts, *A Strategy for Culture* (Ottawa, 1980) p. 152

ment by Hollywood producers, sales agents, American networks, and Home Box Office through executive producer roles and conditional prepurchasing by sales agents and U.S. television, which was contingent upon control of scripts, directors, and casting.[26]

It should be noted that while creative personnel may not have benefited to the same extent as technical personnel and those providing intermediating services, they are still likely to be short-run beneficiaries, on the margin, of a rapid expansion in overall film production activity in Canada. Recent and proposed changes to the qualifying criteria that would place higher priority on the use of Canadian creative talent merely represents "fiddling" with the distribution of taxpayer "booty." The focus of feature filmmaking activity will continue to be the "home-run" or "Hollywood-North" model, whereby Canadian filmmakers aim for commercial success in the U.S. market.

The 100 per cent Capital Cost Allowance stands as a monument to irresponsible policy making and comes as close to being a pure taxpayer "rip-off" as one is ever likely to find. The bizarre feature (to us) of the policy debate to date is its focus on which personnel categories should benefit from increased film activity and not on whether any market failure issue is addressed (or even potentially addressed) by the Capital Cost Allowance. Our own assessment is that no market failure issue is at stake in the feature film industry. The experience of the feature film industry in Canada suggests that whatever Canadian content is, it is not the outcome of feature film production. Indeed, the expansion of the feature film industry — and the consequent bidding up of factor prices — makes it more expensive for documentary and experimental filmmakers to produce their output. As we argued in Chapter 3, market failure issues are more likely to arise in the case of experimental culture than in the case of culture directed to mass audiences.

The Performing Arts

Hypotheses abound concerning the effects of increased public funding of the arts.[27] For example, it has been suggested that the rapid increase in funding for the performing arts has led to the establishment of a large number of new artistic organizations and to increased productions of new and experimental works, that increased funding has enabled performers to devote greater time to performing and less time to supplementing their incomes, thereby improving the quality of arts performances, and that increased funding has led to increased availability of the arts. On the other hand, the concern has been raised that government support merely substitutes for private funding or earned revenue and that government subsidies permit arts groups to perform unorthodox presentations that are more pleasing to the performers than to actual and potential customers.

As noted earlier in this chapter, theoretical identification of the *ex ante* allocative and distributional consequences of government subsidies to non-profit cultural organizations requires a model of how potentially affected institutions behave. For example, what do arts organizations try to maximize or minimize? What outside forces constrain their actions? Regarding the objectives of arts organizations, Weisbrod asserts that no consensus exists among economists as to how to model — that is, to describe and predict — the behaviour of voluntary "non-profit" firms. He further observes that the motivations of those who contribute to the financing of these organizations' activities are difficult to determine.[28] Other authors have expressed the view that arts organizations attempt to maximize the "spread" of their cultural influence. This, in turn, involves a joint strategy of increasing performances and keeping ticket prices "low" so as not to discourage attendance.[29] However, depending upon supply conditions in factor markets and the preferences of the granting agencies, particularly the Canada Council, the *ex post* effects of an attempted expansion of performances could differ from the effects anticipated by arts organizations. In short, the impact of public subsidies to the performing arts is very much an empirical issue.

The most comprehensive analysis to date of the impact of government subsidies to the performing arts was conducted by Netzer for a sample of U.S. theatre companies, opera companies, and symphony orchestras.[30] His statistical analysis leads Netzer to conclude that while all three types of arts organizations received large increases in government funds during the sample period, public subsidy had quite different effects on each. Specifically, public subsidy for theatre companies was associated with wage increases far in excess of wage increases in the rest of the economy. The increase in average ticket prices was quite low relative to the consumer price index, thereby facilitating a sizeable increase in attendance. The number of perfor-

mances increased very modestly. The opera companies in the survey did not make wage increases in excess of those in the economy at large, but the number of performances increased substantially. Ticket price increases were kept low relative to the consumer price index. Major symphony orchestras considerably increased their number of performances per year. Wage costs per performance rose only modestly as did the number of ticketed performances. The number of contracted performances more than doubled, however. For all performing arts organizations in his sample, Netzer concludes that there is no evidence to support the notion that increased government support substituted for private contributions and grants that might otherwise have been forthcoming.[31]

A reasonably comparable study to Netzer's focusing on Canadian performing arts groups is provided by the author in an earlier study. The basic data underlying our discussion of this study are provided in Tables 4.5 and 4.6.[32] More specifically, the data pertain to funding and operating characteristics of the twenty-nine largest Canadian performing arts organizations. Several points are relatively obvious from Table 4.5. One is that the impact of government funding apparently varies across different art forms. More specifically, it would appear that the increase in total audience attendance was most marked in the case of theatre groups, reflecting not only the largest relative increase in performances, but also the largest relative increase in attendance. A second is that the substantial increases in government funding were associated with sharp increases in specific categories of expenditure.

Table 4.5
PERCENTAGE INCREASES IN ECONOMIC VARIABLES, 1967/68 TO 1975/76, FOR "GROUP OF 29"

Economic Variable	Music	Opera	Dance	Theatre
Artistic salaries	184	126	113	140
Technical salaries	526	187	259	297
Publicity & promotion expenses	336	230	261	136
Administration expenses	157	211	65	183
Performances	93	66	25	101
Production personnel cost per performance*	52	44	88	40
Earned revenue	176	119	130	186
Attendance	49	23	26	80
Earned revenue per attendee	85	46	83	58
Government funding	283	178	244	197

Source: Steven Globerman, "An Exploratory Analysis of the Effects of Public Funding of the Performing Arts," in W.S. Hendon, ed., *Economic Policy for the Arts* (Cambridge, Mass.: Abt Books, 1980), p. 75.

* Calculated as artistic plus technical salaries divided by total performances.

Table 4.6
PERCENTAGE DISTRIBUTION OF TOTAL OPERATING INCOME BY SOURCE, 1966/67 AND 1974/75, FOR TWENTY-NINE CANADIAN PERFORMING ARTS COMPANIES
(Thousands of Dollars)

	Theatre		Opera		Music		Dance	
1966-67	Total	%	Total	%	Total	%	Total	%
Government	$ 1 406	33	$ 447	29	$ 1 199	31	$ 778	35
Private	160	4	160	11	723	19	431	19
Ticket Income and Other Earned Income	2 698	63	912	60	1 949	50	1 042	46
Total	4 264		1 519		3 871		2 251	
1974-75	Total	%	Total	%	Total	%	Total	%
Government	$ 4 182	33	$1 243	35	$ 4 593	40	$2 678	44
Private	892	7	353	10	1 554	13	685	11
Ticket Income and Other Earned Income	7 757	60	1 925	55	5 479	47	2 777	45
Total	12 831		3 521		11 626		6 140	
Number of Organizations	13		3		10		3	

Source: Calculations based on data provided in Max Brice and Daniel Rosborough, "The Group of Twenty-Nine Revisited," mimeo (Research and Statistics Directorate, Arts and Culture Branch, Secretary of State for Canada, 1978).

In particular, sharp increases were experienced in technical salaries and in overhead costs such as promotion and administration.

The increase in production personnel cost per performance shows that increased artistic and technical salaries were not entirely due to the increased number of performances over the sample period. It should be noted that, in all cases, the increase in production personnel cost per performance was less than the approximate 90 per cent increase in average weekly wages and salaries for the service sector as a whole over the sample period. However, the average of artistic and technical salaries per performance obscures the likelihood that technical salaries increased at a faster rate than the increase in average service-sector wages and salaries.[33] This likelihood is underscored by the fact that the difference between the percentage growth in technical salaries and the percentage growth in performances exceeded the percentage growth in average wages and salaries in the service sector (90 per cent) for all four art forms.

It is interesting and not overly surprising to find, as in the case of the 100 per cent Capital Cost Allowance, that technical workers are major beneficiaries of expanded economic activity. Many such workers belong to unions that have the capacity to restrict entry into the

relevant occupations. Hence, an increase in demand for their skills will encourage a substantial increase in the average price paid for their services. It is also interesting to note that intermediating activities related to publicity and promotion grew at a faster rate than total performances. This relationship also parallels that observed for the film industry. In short, a substantial amount of support for a main deduction from models of economic nationalism is provided in the experiences of the performing arts and the film industry: a relatively small number of skilled professional and technical workers have been major beneficiaries of policies implemented ostensibly to help promote Canada's cultural identity.

It can be shown that if either private philanthropy or earned revenue has a negative (or inverse) relationship with government funding, then absolute increases in government funding will be associated with decreases in the relative share(s) of non-government sources of revenue, all other things remaining constant. Table 4.6 reports data for twenty-nine performing arts companies, which suggest that public funding may be (to some degree) a substitute for private philanthropy and earned revenue. Specifically, the relative share of earned revenue decreased for all four art forms, while the relative share of operating income accounted for by private philanthropy increased only in the case of theatre. To be sure, several of the changes in relative shares of operating income are marginal. In another test, data similar to those presented in Table 4.6 were obtained for a sample of thirteen Ontario symphony orchestras.[34] For all thirteen orchestras, the absolute amount of government funding increased substantially over the sample period (1972/73 to 1976/77). In seven of the thirteen cases, the share of private contributions in total revenue decreased over the sample period. The relative share of total concert revenue decreased in eight of thirteen cases. These relatively small differences suggest a weak negative relationship between public funding and other sources of revenue. On balance, the available evidence constitutes only weak support for the hypothesis that public funding substitutes for private funding to some degree.[35] None the less, even this weak evidence is of concern, since the implication of a negative relationship is that the general taxpayer is bearing some of the financial burden that could (and should) be borne by wealthier members of society who are (in relative terms) the most intensive users of cultural facilities.

While it is not shown in either Table 4.5 or Table 4.6, Brice and Rosborough calculate that over the period from 1971 to 1975, the number of theatre performances of Canadian works increased by around 190 per cent compared to an increase of 30 per cent for theatre performances of all types. Thus, if "Canadian" works are more highly valued by funding agencies, theatre groups responded to the cultural

objective of "Canadianizing" their performances. The performances of classical music composed by Canadians, however, increased by 57 per cent from 1971 to 1975 compared with an increase in total performances of 110 per cent over the same period. In dance, the percentage increase in Canadian performances (17 per cent) from 1971 to 1975 was about equal to the percentage increase in all dance performances. It is arguably the case that the relative number of Canadian classical composers and choreographers is small relative to the number of Canadian playwrights, thereby accounting for the much faster relative growth of Canadian content in theatre. Yet, the wide dispersion in the growth of Canadian content in the performing arts also calls into question whether the policy objectives of the granting agencies are clear to managers of cultural organizations. This concern is underscored by the observation that Canadian cultural content in the performing arts has fluctuated quite markedly in recent years. For example, "Canadian" theatre performances accounted for 48 per cent of all theatre performances in 1978 but accounted for only 25 per cent of all theatre performances in 1979. Attendance at "Canadian" theatre performances fell from 53 per cent of total attendance in 1978 to 20 per cent in 1979.[36]

One last piece of evidence bearing on the impact of government funding of the performing arts is provided in Table 4.7. This table

Table 4.7
AVERAGE PUBLIC-SECTOR GRANTS PER COMPANY AND PERCENTAGE BREAKDOWN OF EXPENSES, 1978

	Average Per Company $	% Artistic Personnel	% Technical Personnel*	% Administration	% Other
Theatre					
Less than $200 000	51 946	40	10 (26)	24	26
$200 000 – $799 999	183 995	29	13 (27)	26	30
$800 000 and over	524 512	27	15 (35)	22	36
Music					
Less than $200 000	27 209	64	2 (7)	21	11
$200 000 – $799 999	204 839	62	2 (10)	21	15
$800 000 and over	855 472	66	2 (10)	19	13
Dance					
Less than $200 000	46 198	40	7 (26)	24	29
$200 000 – $799 999	164 113	35	8 (29)	30	27
$800 000 and over	1,303 498	35	15 (41)	17	33

Source: Statistics Canada, *Culture Statistics — Performing Arts, 1978* (Ottawa: Ministry of Supply and Services Canada, 1980), Table xx.

* The numbers in parentheses represent the sum of technical personnel costs plus expenditures on royalties, sets, props, costumes, and technical expenses. Conceptually, it would have been preferable to include only technical expenses with technical personnel costs. Since this was not possible, the sum of all these expenditure items represents the largest possible component of costs that can be considered technical in nature.

shows the distribution of costs for different revenue groups within three arts disciplines, along with the average amount of government funding per company. As expected, average public-sector grants per company go up quite substantially with size of company in each arts discipline. In the case of theatre and dance, the percentage of total expenditures going to technical personnel also increases consistently with size of company. This lends further support to evidence adduced earlier that technical personnel are disproportionate beneficiaries of increases in government arts funding. However, no consistent relationship of this sort is observed for music companies. Furthermore, no consistent relationship between company size and administration expenses as a percentage of total costs can be observed for any of the arts forms. This observation casts some doubt on the conclusions drawn from our time series findings, namely that increased government funding leads to disproportionate growth in intermediating activities related to publicity and promotion. It is possible that some of these costs have been classified as part of "physical plant" expenditures, particularly those related to box office management, but it is unclear what sort of bias this exclusion would impart.

Our overall evaluation of the effects of government funding for the performing arts is somewhat mixed. On balance it would seem that increased government funding has contributed to an increase in total arts performances and in attendance at performing arts events, notwithstanding the possibility that public funding contributes to reductions in the growth of private philanthropy and earned revenue. However, the relevance of this growth in performances is obscure. Unless one can apply a public or merit goods argument for increased arts performances, it is unclear that such an increase addresses an important market failure problem. This concern is particularly important in view of the fact that arts audiences are disproportionately drawn from upper socio-economic groups, thereby raising an objection that public funding in this area has been an income-regressive instrument. This concern is amplified by the fact that technical personnel (and possibly administrative personnel) have enjoyed above-average income increases as a consequence of the expansion of the performing arts. There is no evidence that these groups are particularly deprived and in need of income supplements. Thus, the above-average income increases they have enjoyed cannot be viewed as a desirable or even an acceptable consequence of public policy.

We noted in Chapter 3 that a theoretical case can be made for promoting experimental art. Unfortunately, there are no data that allow us to evaluate directly whether public funding has successfully promoted experimentation in the performing arts. It should be noted that a number of observers have objected that the Canada Council has

put the majority of its efforts into funding the classics.[37] Moreover, the data in Table 4.7 suggest that the bulk of government funding has gone to organizations of medium and large size.[38] Observers argue that experimentation in the arts is more likely to be promoted by small organizations.[39] Hence, public funding, on balance, cannot be considered to have promoted artistic experimentation in a substantial way.

There is clearer evidence that increased government funding has been related to an increase in the "Canadian content" of performances, as identified by plays, concerts, and dance performances written, composed, or choreographed by Canadians. Again, however, the policy implications of this result are unclear. To the extent that the cohesiveness of Canadian society is promoted by Canadian content, as identified by the nationality of the creative source, government funding of the performing arts might be making a contribution to "national defence." It is not at all clear in the cultural nationalists' arguments how substituting indigenous for imported culture, on the margin, promotes a greater sense of shared principles and values among Canadians, although it is plausible that a stronger commitment to preserve the federation might follow from the promotion of a greater sense of "Canadianness." It is clear that the substitution of indigenous for imported culture has the potential to divert income from foreigners to Canadians. We have already noted, for example, that the Canadian-content requirements imposed on radio broadcasters encouraged record buyers (on the margin) to substitute "Canadian" records for those written and performed by foreigners. It is also likely, although undocumented to our knowledge, that the general promotion of Canadian nationalism by the media has encouraged some substitution away from the consumption of foreign goods toward domestically produced goods. In most cases, the small percentage of purchases made by Canadians in the North American market implies that such substitution is unlikely to affect Canada's terms of trade with the United States. In certain local markets, however (e.g., advertising rates on U.S. border television stations), nationalistic policies in Canada may have had the effect of forcing down U.S. prices on sales made to Canadians.

It remains to be demonstrated that the favourable impacts on Canada's terms of trade with the United States owing to nationalistic policies outweigh the allocative costs and undesirable distributional consequences of cultural nationalism in the Canadian economy. In addition, the efficiency with which government funding policies are being implemented is called into question by the variance in Canadian-content performances over time and the variance across art forms.

Import Restrictions on Elementary and High School Texts

We noted above that it is an increasingly common practice for provincial ministries of education to restrict the choice of books that can be used as texts in the elementary and high school system.[40] As a practical matter, this policy results in non-tariff barriers against imports of foreign textbooks usable at the elementary and high school levels, since individual ordering of such books by students is practically nil. A relatively straightforward deduction from elementary economic models is the expectation that such a barrier to importation will raise the price of elementary and high school texts purchased in Canada.

Some evidence in support of this assertion is provided by data in Table 4.8. These data show that for elementary and high school texts, the net prices charged by Canadian publishers for their books tend to be considerably above those charged in the United States. It is worth noting that the college market continues to be dominated by imported titles to a much greater extent than the market for elementary and high school texts. Similar comments apply to the case of "professional, scholarly, and general reference" books where Canadian unit values are also considerably below the U.S. ones. The fact that trade books (other than mass-market paperbacks) appear to be higher priced in Canada is contrary to the pattern expected since no significant import barriers would appear to be present in this case. It is possible, however, that the price information for this category is unreliable since it represents imputations made by Blomqvist and Lim.[41]

It is impossible (on the basis of available information) to determine who the net beneficiaries are of higher prices for elementary and high school textbooks in Canada.[42] Nor is it possible to evaluate whether there are any social benefits (commensurate with these higher costs) associated with more intensive use of books published by Canadian companies rather than by foreign companies. While we cannot, therefore, critically evaluate the import-substitution program itself, we can be critical of the policy process, which, to our knowledge, has failed to evaluate the magnitude and distribution of the relevant benefits and costs of the program.

Summary

On the basis of the available evidence, it is not possible to be definitive in our evaluation of the impacts of major instruments of cultural intervention. It would appear safe to conclude, however, that in all cases, cultural intervention has effects (either intended or unintended) that are, if not socially undesirable, hardly contributory to alleviating obvious market failure problems. Indeed, many of the more

Table 4.8
UNIT VALUES OF PUBLISHERS' SALES
(by Commercial Category, Canada and United States)

		1975	1976	1977
Elementary texts				
unit values:	United States	—	2.43	2.64
	Canada	2.88	3.21	—
sales:	United States	—	408	449
	Canada	32.0	27.8	—
High school texts				
unit values:	United States	—	3.59	3.93
	Canada	3.96	4.78	—
sales:	United States	—	233	256
	Canada	13.8	14.2	—
Post-secondary texts				
unit values:	United States	—	6.94	7.72
	Canada	5.76	7.14	—
sales:	United States	—	564	592
	Canada	5.4	5.7	—
Professional, scholarly, general				
unit values:	United States	—	11.51	12.22
	Canada	7.06	6.09	—
sales:	United States	—	559	627
	Canada	13.7	16.0	—
Trade books, all formats				
unit values:	United States	—	(1.60)*	(2.64)*
	Canada	.74	1.07	—
sales:	United States	—	(1160)*	(1326)*
	Canada	50.6	78.4	—
Trade books, other than MMP				
unit values:	United States	—	2.90	3.14
	Canada	(2.88)**	(4.90)**	—
sales:	United States	—	744	810
	Canada	17.0	36.6	—
Mass-market paperback				
unit values:	United States	—	.886	.972
	Canada	.53	.637	—
sales:	United States	—	415	516
	Canada	34.2	42.0	—

Source: A.G. Blomqvist and Chin Lim, *Copyright, Competition and Canadian Culture* (Ottawa: Minister of Supply and Services Canaada, 1981), Table 6.

* Assuming that all mass-market paperbacks are trade books

** Assuming that mass-market paperback trade books have the same unit value as all mass-market paperbacks

noticeable effects involve a transfer of income from the general population to a fairly narrow segment of the population who enjoy an above-average socio-economic status. In this respect, the observed impacts of cultural intervention support an important hypothesis

derived from models of economic nationalism, that is, nationalistic policies promote the interests of middle-income technical and skilled workers at the expense of the rest of the population.

It seems appropriate to conclude that cultural intervention has promoted the growth of cultural production in Canada. Whether increased cultural production in Canada generally addresses important market failure issues is, in our opinion, a matter of conjecture. The most prominent argument raised by cultural nationalists is that indigenous Canadian culture promotes the survival of the Canadian nation analogous to the benefits provided by expenditures on national defence. In this regard, a number of the major instruments employed appear to have promoted the growth of indigenous culture, where the latter is defined by the nationality of the creative talent involved in the production activity. However, in several prominent cases, for example, records and particularly feature film, the products being produced are clearly geared to the international market, and the content of the product is, in many cases, indistinguishable from that of comparable U.S. producers. It is difficult to understand what social purpose is served by promoting an increase in this type of output, particularly when it does not represent experimental art or cultural output of a "non-commercial" nature. Furthermore, anecdotal evidence of increased provincial government — federal government tensions, the continued strength of the separatist movement in Quebec, and the emergence of the western separatist movement, in the face of the dramatic growth in federal government intervention into the culture sector, calls into question the relevance of the assumed relationship between cultural nationalism and national cohesiveness.[43] Finally, and perhaps of greatest import, it is far from clear that Canada's welfare in an increasingly interdependent world (both economically and politically) is advanced by xenophobic cultural policies.

Notes

[1] This practice is described in Ake G. Blomqvist and Chin Lim, *Copyright, Competition, and Canadian Culture: The Impact of Alternative Copyright Act Import Provisions on the Book Publishing and Sound Recording Industries* (Ottawa: Minister of Supply and Services Canada, 1981).

[2] These objectives are rarely made explicit and therefore must be inferred from the actions of cultural organizations.

[3] Several U.S. case studies have found that labour unions are quite adept at capturing a large portion of increased government grants in the form of higher wages. See Archie Kleingartner and Kenneth Lloyd, "Labor-Management Relations in the Performing Arts: The Case of Los Angeles," *California Management Review* 15 (Winter 1972): 128–32.

[4] See, for example, Bruce A. Seaman, "Economic Models and Support for the Arts," and Steven Globerman, "An Exploratory Analysis of the Effects of Public Funding of the Performing Arts," in *Economic Policy for the Arts*, edited by William S. Hendon, James L. Shanahan, and Alice J. MacDonald (Cambridge, Mass.: Abt Books, 1980), pp. 80–95 and 67–78.

[5] See Harry Bloch, "Prices, Costs and Profits in Canadian Manufacturing: The Influence of Tariffs and Concentration," *Canadian Journal of Economics* 7 (November 1974): 594–610. This presumes, of course, that domestic producers are at least as efficient as foreign producers. Where imports are lower priced than comparable domestic goods and services (but cannot be supplied in a quantity to fully satisfy domestic demand), import restrictions will lead directly to an increase in the average domestic price level for the relevant good or service.

[6] Bloch, *op. cit.*, found that the combination of high tariffs and high levels of concentration in domestic industries led to both higher prices and higher costs. For an elaboration of the concept of "X-inefficiency," see Harvey Leibenstein, "Allocative Efficiency vs. X-efficiency," *American Economic Review* 56 (June 1966): 392–415.

[7] This "bidding-away" process is likely to be hastened by requirements for domestic producers to use certain minimum quantities of domestic factors of production.

[8] See Jean-Luc Migué, *Nationalistic Policies in Canada: An Economic Approach* (Montreal: C.D. Howe Research Institute, 1979).

[9] In 1970, the CRTC specified that at least 30 per cent of the musical compositions broadcast by an AM station or network operator qualify as "Canadian." FM stations are required to produce and schedule 16 to 25 per cent non-record, foreground segments that are, by definition, Canadian. These regulations were fully implemented by 1973 in the case of AM radio and by 1976 in the case of FM radio. Canadian content is determined on the basis of the following criteria: performer, lyricist, composer, and producer.

[10] The growth in recording Canadian content is also exhibited by the increased number and quality of recording studios in Canada. The Canadian-content regulations establish domestic studio recordings as one of the content criteria. The majority of existing Canadian recording studios came into being after the Canadian-content requirements were imposed. See Jim Keon, *A Performing Right for Sound Recordings: An Analysis* (Ottawa: Minister of Supply and Services Canada, 1980), p. 45.

[11] One observer reports that sales of artistically indigenous recordings may have risen from 5 per cent to around 10 per cent as a result of CRTC Canadian-content regulations. See Conrad Winn, "Department of the Secretary of State: Potpourri or Cultural Mandate," in *Spending Tax Dollars: Federal Expenditures 1980–1981*, edited by G. Bruce Doern (Ottawa: Carleton University, School of Public Administration, 1980), pp. 137–62. Some further anecdotal evidence in support of the proposition that record producers may be one set of beneficiaries of Canadian-content broadcasting requirements is provided by the fact that these producers (particularly those who are members of The Canadian Independent Record Production Association) recently petitioned the CRTC to enforce slightly higher minimum content requirements for AM stations and to extend and enforce the minimum 30 per cent Canadian-content requirement to FM stations. See Paul McGrath, "Producers Want More Canadian Content," *The Globe and Mail* (18 April 1981), p. 8.

[12] See Paul McGrath and John Kraglund, "Music Industry Seeks Federal Aid," *The Globe and Mail* (3 June 1981), p. 10.

[13] See Paul McGrath, "The Music Men of Toronto Now in Session," *The Globe and Mail* (22 September 1979), p. 12.

[14] See McGrath and Kraglund, *op. cit.*

[15] Obviously writers and publishers of older Canadian hit songs enjoying extended broadcast play owing to content regulations are also beneficiaries of a windfall since they receive broadcast royalties.

[16] See Steven Globerman and Mitchell P. Rothman, *An Economic Analysis of a Performers' Right* (Ottawa: Minister of Supply and Services Canada, 1981), p. 10.

[17] For example, the CRTC stated that in 1978–1979 less than 6 per cent of the programming offered by CTV between 8 P.M. and 10:30 P.M. was Canadian.

[18] For evidence on this point, see Stuart McFadyen, Colin Hoskins, and David Gillen, *Canadian Broadcasting: Market Structure and Economic Performance* (Montreal: The Institute for Research on Public Policy, 1980).

[19] See McFadyen, Hoskins and Gillen, *op. cit.*; and Robert E. Babe, *Canadian Television Broadcasting Structure, Performance and Regulation*, study prepared for the Economic Council of Canada (Ottawa: Minister of Supply and Services Canada, 1979).

[20] See "A Confrontation With Canada Over TV Ads," *Business Week* (6 November 1978), pp. 142, 147.

[21] The specific retaliation is described in Chapter 1. The potential for broader retaliation to be taken (including barring Canada from marketing its Telidon videotex equipment in the United States) is discussed in John King, "Canada-U.S. TV Dispute Involves Telidon," *The Globe and Mail* (15 May 1982), p. 12.

[22] Feature film production since 1978 represents almost one third of all feature films Canada has produced. As recently as 1970, only 25 feature films were produced in Canada. See Canadian Conference of the Arts, *A Strategy for Culture* (Ottawa, 1980), p. 150.

[23] See "Movie Flops Lower Investment Despite Incentives," *The Globe and Mail* (8 August 1981), p. B.8.

[24] *Ibid.* The important point to stress is that unsuccessful gambles were subsidized to a great extent by the general taxpayer.

[25] Canadian Conference of the Arts, *op. cit.*, p. 151.

[26] *Ibid.*, p. 152.

[27] A substantial portion of the discussion in this section is taken from Globerman, *op. cit.*

[28] See Burton A. Weisbrod, *The Voluntary Nonprofit Sector: An Economic Analysis* (Lexington, Mass.: D.C. Heath, 1977).

[29] See William J. Baumol and William G. Bowen, *Performing Arts — The Economic Dilemma* (Cambridge, Mass.: MIT Press, 1966).

[30] Dick Netzer, *The Subsidized Muse* (Cambridge: Cambridge University Press, 1978).

[31] In separate case studies of 8 performing arts organizations, Netzer, *op. cit.*, reaffirms his finding that in many cases, increased funding leads to substantial increases in compensation for performers and to increased numbers of performances outside the regular season.

[32] The statistics presented in Tables 4.5 and 4.6 were calculated from data in Max Brice and Daniel Rosborough, "The Group of Twenty-Nine Revisited," mimeo (Ottawa: Secretary of State, Research and Statistics Directorate, Arts and Culture Branch, 1978). These data are, to our knowledge, the only available consistent time-series data for a specific sample of Canadian performing arts groups.

[33] Unfortunately, the data provided in Brice and Rosborough, *op. cit.*, do not permit a breakdown of artistic and technical personnel cost per performance.

[34] See Globerman, *op. cit.*

[35] See Seaman, *op. cit.* However, Seaman also concludes that the impact of public funding on private philanthropy is marginal.

[36] These data are reported in Statistics Canada, *Culture Statistics*, Vol. 3, No. 10, December 1980 (Ottawa: Minister of Supply and Services Canada), p. 2. A "Canadian performance" is defined as a performance that is at least partially composed of a play written by a Canadian citizen or a landed immigrant.

[37] See, for example, Tom Hendry, "The Art of Playing It Safe," *The Globe and Mail* (29 October 1978).

[38] The pattern of disproportionate funding for large performing arts companies is particularly marked for federal government funding. For example, the largest theatre groups received $1.94 per spectator in federal government grants in 1978 and $1.10 for the smallest theatre groups. On the other hand, provincial government grants per spectator equalled $1.04 for both the largest and smallest theatre groups. See Statistics Canada, *Culture Statistics — Performing Arts 1978* (Ottawa: Minister of Supply and Services Canada, 1980).

[39] See Hendry, *op. cit.*

[40] This is discussed in Blomqvist and Lim, *op. cit.*

[41] *Ibid.*

[42] It is possible to speculate that the immediate beneficiaries are publishing companies in Canada and that these benefits are, over time, passed along to Canadian writers and technical personnel. In this regard, it is somewhat ironic to note that foreign-controlled publishers in Canada concentrate heavily in the production of elementary and high school textbooks. Furthermore, a small number of publishers handle a large proportion of sales, suggesting that the benefits of protectionism will be highly concentrated. For evidence on this point, see Bureau of Management Consulting, *The Publishing Industry in Canada*, study prepared for the Department of Secretary of State (Ottawa: Minister of Supply and Services Canada, 1977).

[43] Undoubtedly, cultural nationalists would argue that regional schisms would be worse in the absence of expensive government intervention. For a sceptical view of this defence in the context of francophone-anglophone relations, see Raymond Breton, Jeffrey G. Reitz, and Victor F. Valentine, *Cultural Boundaries and the Cohesion of Canada* (Montreal: The Institute for Research on Public Policy, 1980).

Overall Summary and Conclusions

5

A Perspective on Cultural Intervention in Canada

Our overall review of cultural intervention in Canada suggests that many, if not most, of the major interventionist instruments in Canada fail to promote broad public policy objectives. More specifically, most fail to address plausible market failure problems. Indeed, some of the prominent effects of cultural intervention can be criticized as clearly being anti-social in nature, such as redistributing income from poorer to wealthier members of society. While the latter result is consistent with the implications of public choice models described in Chapter 2, particularly those dealing with economic nationalism, it is also possible that the undesirable consequences of cultural intervention simply reflect poor policy analysis and ineffective implementation of policy.

In this regard, the process of cultural policy making in Canada can be criticized on a variety of grounds.[1] The most important weakness, in our opinion, is its focus on operational considerations, that is, how we increase *Canadian* cultural output, rather than on the more basic question: Is there a divergence between the socially "optimal" and the privately "optimal" amount of cultural output however labelled? The latter question relates directly to the issue of the source and nature of market failure problems in the culture industries. While various market failure arguments have been featured in public policy debates surrounding cultural intervention, there has been virtually no critical examination of these arguments by the responsible policy makers. In the absence of an identification of genuine market failure problems, one would anticipate the imposition of policies that serve no obvious social function but, rather, benefit a small number of individuals who assume certain costs associated with lobbying for their favoured policies.

Specific Criticisms of Cultural Policy in Canada

It would seem obvious, to the point of being trivial, that effective policy making requires a clear statement of objectives. Indeed, the initial stage of any strategic analysis and policy-formulation exercise is the specification of the organization's goals and objectives.[2] Ideally, objectives should be specified explicitly and should be operational. Since organizations typically have multiple objectives, policy makers should establish weights to facilitate establishing trade-offs between non-complementary goals. Clearly specified and operational objectives can assist managers by helping to co-ordinate decisions and decision makers and by providing standards to assess performance.

It has been noted by various observers that policy makers (including cultural policy makers) eschew formulating objectives, since they could then be held accountable for failing to achieve those objectives, or for spending excessively to achieve them.[3] There is no gainsaying that the setting of objectives (particularly in public-sector institutions) is an extremely difficult task and that some ambiguity in the objectives established might be necessary to facilitate achieving some consensus. However, if objectives are not sufficiently clear to enable voters to hold public-sector decision makers accountable, it becomes much more likely that policies promoting narrow rather than broad public-interest objectives will be implemented.

In this regard, if promoting Canadian culture to encourage a stronger shared identity among Canadians is (as sometimes argued) an overriding public policy objective, policy makers must confront the issue of what constitutes Canadian culture. Obviously this issue is enormous in scope and surpasses the more focused concerns that economists and lawyers ordinarily bring to public policy debates. Yet the issue cannot be avoided, unless the posture is adopted that all things (tangible or intangible) created by Canadians promote Canadian culture and, therefore, merit government assistance.[4] It is remarkable and highly objectionable that in the midst of what constitutes an almost hysterical commitment to promote Canadian culture on the part of certain government departments and agencies, few policy makers seem to be contemplating the issue of what constitutes Canadian culture. It will be a grievous shortcoming in the Applebaum-Hébert Commission's final report if it does not address this issue.

It is apparent that even narrowly circumscribed definitions of Canadian culture will encompass a broad range of activities. Given finite resources to promote culture, however defined, some fairly hard and reasoned allocation decisions will need to be made on the margin. Such decision making requires identification of those specific cultural activities that, indeed, contribute to promoting shared principles and

values in an important way. Priorities are required not only to evaluate real resource trade-offs among different cultural activities but also to evaluate the overall impact of programs that have significant indirect effects on the production and consumption of culture in other sectors. For example, the 100 per cent Capital Cost Allowance for Canadian feature films has clearly been a success in terms of stimulating feature film production in Canada. It has done so by bidding away the talents of performers, writers, and composers. Therefore, feature film growth may have come partially at the expense of the quantity and quality of output in live theatre and music.[5] As another example, non-tariff barriers to importing elementary and high school textbooks may, by raising the average price level for all textbooks sold in Canada, reduce the overall level of verbal and numerical literacy in Canada.

The Choice of Strategy

Presuming that the identification of cultural objectives is feasible, policies to promote achievement of these objectives must be formulated and implemented. Ordinarily there are a variety of alternative strategies available to the decision maker, including the alternative of not intervening at all in ongoing market processes. In this regard, there are at least two specific issues that policy analysts should focus upon in evaluating alternative strategies to promote cultural objectives. One issue is whether or not the market system will fail to provide a satisfactory resolution of the problems associated with realizing Canada's cultural objectives. The predisposition of many economists is to allow the market to allocate resources unless there is an evident market failure problem or concerns about fairness or inequities in the distribution of income that policy makers need to address. We have indicated our belief in various places in this study that market failure problems and concerns about distributional equity in cultural activities have been overstated by proponents of cultural intervention. As a consequence, policies have been implemented that have had largely undesirable consequences from a broad social perspective.

Moreover, the existence of market failure is not a sufficient justification for government intervention. This raises a second issue. Are policies whose benefits exceed their costs available to remedy extant market failure problems? Again, there is available evidence to suggest that cultural policies have been implemented without any critical consideration being given to whether they are likely to be efficient in the Canadian context. More specifically, it is unrealistic to expect that Canada can efficiently produce across a broad range of cultural activities any more than it can produce a broad range of manufactured goods. There is reason to believe that in the cultural

area, as in other production activities, Canada needs to specialize in order to be efficient. Yet cultural policy makers do not seem to recognize the relevance of the specialization argument.[6] As a consequence, wasteful and possibly ineffectual government policies are to be expected.

The Canadian feature film industry is again a case in point. As noted earlier, Canadian feature filmmakers are following a "Hollywood" strategy towards filmmaking and are encouraged to do so by the nature of the Capital Cost Allowance Program. Yet it is clear that Hollywood, and not Toronto or Vancouver, possesses the comparative advantage in this type of activity. This is attested to by, among other things, the need to import a significant percentage of feature performers from the United States in order to obtain private financial backing for a Canadian film. While a relatively small pool of actors might support a repertory company approach towards filmmaking, as exemplified by Bergman or Wertmuller, the routine production of feature films that seek to appeal to a broad middle-of-the-road audience requires a large pool of actors and other creative talent. In summary, "Hollywood" belongs in a large country.[7]

The adoption and implementation of efficient strategies to mitigate market failure problems in cultural activities also requires that the policy maker have a good understanding of underlying cultural production functions, that is, how various inputs combine to produce a given cultural output. For example, some forms of assistance (e.g., tax deductions) primarily affect the production component of a cultural activity, while others (e.g., cash grants to writers) have an impact upon the creative component. Depending upon whether one views the scarcity of producible material or the scarcity of risk capital to be more severe, one might favour an emphasis on one or the other assistance program. At present, we have only very crude estimates of how various inputs combine to produce cultural output, and these are largely for the performing arts.[8] Our lack of knowledge about production relationships in the cultural sector raises the possibility that inefficient policies are being chosen and implemented to increase Canadian cultural output.[9]

Issues Related to the Implementation of Cultural Policy

Even potentially effective policies can fail to promote organizational objectives if they are not implemented effectively and efficiently. Indeed, the evaluation of alternative strategies should take into account ease or difficulty of implementation.[10] One contentious question related to the implementation issue is whether government intervention should primarily take the form of direct or indirect

assistance. While the division between these two categories is not entirely unambiguous, direct assistance corresponds largely to the "direct grants and expenditure" instrument, while the other instruments listed in Table 1.1 can be identified as providing indirect support to indigenous culture.

Several general arguments have been raised in favour of indirect rather than direct government assistance to the arts. One is related to a concern that if the government directly controls the purse strings of individual artists or artistic institutions, a clear and present danger of artistic censorship is raised. Another is premised on the view that privately owned institutions can do anything a government bureaucracy can do, only more efficiently.

With respect to the first argument, there is little evidence from either the Canadian or U.S. experiences that governments have attempted to use the leverage provided by their funding to censor or otherwise regulate the content of artistic institutions.[11] In any case, it is naïve to think that government influence over artistic content derives only from direct government funding to the arts. Laws and regulations (actual or anticipated) can also be powerful incentives to condition artistic "content." One has only to recall the impact of the McCarthy hearings on the U.S. movie industry to be convinced that artistic freedom is guaranteed by open democracy and not by specific design features of government granting mechanisms.

The question of whether one type of support mechanism is more efficient than another is somewhat more substantive. Obviously the answer (to a large extent) depends upon the criterion chosen to measure efficiency. Proponents of tax incentives and other indirect forms of assistance point to the 100 per cent Capital Cost Allowance for Canadian films as an example of how indirect assistance encourages the production of commercially oriented output. The implicit value judgement here is that increased output of a commercial orientation is desirable. While we would agree that the private benefits of commercial culture can be substantial,[12] we would argue that market failure arguments for government intervention are probably weakest in the case of "mass-market" cultural output.

Another related notion is that channelling public monies to artists, producers, and the like, through institutions such as the Canada Council, allows a nation's cultural development to be influenced by a relatively small group of individuals, that is, the granting officers of those institutions. On the other hand, providing incentives for private individuals to invest more or spend more on the arts allows for a more "democratic" choice of which art forms will be promoted, which writers will be published, and so forth. Upon reflection, it is evident that this rationale for indirect support of the arts also relies on potential commercial success as a criterion of efficiency, if one presumes that

cultural activities having widespread appeal are more likely to be commercially successful. Furthermore, this argument assumes that the political lobbying process underlying the implementation of tax write-offs and other forms of indirect assistance is somehow more "democratic" than the process by which government grants are dispensed. Given what we know about lobbying activities in the political process, this is a dubious proposition. More specifically, as argued in Chapter 3, most voters tend to ignore most issues that have relatively minor impacts upon their economic welfare, leaving the political lobbying process to be pre-empted by those few producer or employee groups having a strong vested interest in a specific piece of legislation.

It might be argued that indirect funding mechanisms economize on administrative costs. In particular, indirect incentives provided the private sector to promote cultural output should reduce the size of the government bureaucracy required to administer direct funding programs. In fact, overall "dead-weight" administrative costs associated with indirect support programs may exceed those associated with direct support programs if one acknowledges the private resources dedicated to promoting and exploiting indirect support programs as part of the "dead-weight" costs of such programs. Certainly the growing number of entertainment lawyers, investment counsellors, and other financial "hustlers" spawned by recent changes in Canadian tax laws regarding feature films are as much of a social expense as any equivalent group of Canada Council employees. Furthermore, it is not clear that the burden on public-sector employees is actually reduced by implementing indirect forms of cultural intervention, since government scrutiny of these programs is still required. For example, it was reported that (in 1979) the Tax Avoidance Division of Revenue Canada was burdened with a caseload of more than 115 films awaiting rulings on deduction allowances. Merritt Steele, acting director of the division, complained that "Those people are out there selling these things faster than we can investigate them."[13]

On the other hand, there are efficiency arguments to be made in favour of direct instruments of cultural intervention. One traditional argument is that it is easier to determine the real cost of a direct cash subsidy than an indirect one. Furthermore, the distributive effects of a direct transfer are usually easier to identify than those related to indirect transfers. While any form of government tax or subsidy (other than a "head" or poll tax or a "tax on existence") will have some indirect effects on economic activity, it is plausibly argued that relatively small direct grants (or taxes) will have less significant indirect economic effects than policies that substantially change relative prices in specific sectors of the economy (e.g., the 100 per cent write-offs for film investments) or policies that impose production

constraints on specific industrial sectors (e.g., Canadian-content requirements for broadcasters).[14] All other things being the same, taxes and subsidies that leave relative prices unaffected are superior to those that change relative prices.

Another favourable feature of direct assistance is that its initial impact can be more specifically targeted. For example, if it is determined that cultural policy objectives are promoted by having more full-time writers and that the major stumbling block to fulfilling this objective is that many writers need to hold down part-time jobs, a selective grants policy that provides income subsidies to promising part-time writers, enabling them to write full-time, would exemplify a specifically targeted policy. Per dollar of subsidy, more income is likely to wind up in the hands of part-time writers from such a direct transfer approach than from, say, granting additional tax subsidies to book publishers or establishing a rebate program for book purchasers.

There is reason to believe that artists who receive government subsidies of one kind or another prefer indirect forms of assistance, presuming a certain level of assistance is realized under both forms.[15] The reason is basically that direct assistance, such as cash grants from arts councils, smacks of a welfare system, and artists resent being in the position (real or imagined) of supplicants. Making adjustments to the market system so that greater demand for artistic services is created does not have the same stigma attached. While the sensitivity of artists is not an irrelevant consideration, since the effectiveness of any policy to stimulate cultural output will depend, in part, upon the receptivity of artists and performers to the policy, the main point to bear in mind is that the specific form of government intervention should be cognizant of the market failure problem involved. In this regard, a direct cash grant need not be any more a form of welfare than any other type of policy that transfers income between groups in society. The unstated (or understated, at least) concern of artists is that society would balk at underwriting the full costs of artistic subsidies if the true costs were known. Indeed, this concern goes right to the heart of the cultural policy debate.

Some Final Thoughts

The focus of much of our critique of cultural intervention has centred around the notion of market failure. More specifically, the main thrust of our concern is that a substantial amount of cultural intervention does not necessarily address evident problems of market failure and, therefore, does not necessarily contribute to improvements in the overall allocation of cultural resources.[16] Nor do many of the intervention instruments appear to contribute to a more desirable distribution of income in society. Indeed, it seems easier to make the opposite argument. However, it might be objected that our criteria for

evaluating cultural intervention are too narrow. In particular, it might be argued that many government programs are designed to effect much broader purposes than to address market failure issues. For example, government intervention might be desired by certain members of society who believe that government ownership and control of the economy is, *per se*, a good thing. Others might object that the redistribution of income and wealth is a feature of many forms of government intervention and is necessary to "lubricate" the wheels of democracy, even if some specific programs have undesirable side effects.

While we recognize these objections, a consideration of their merits or validity is beyond the scope of this study. Our evaluation of cultural intervention has been undertaken employing conventional public policy criteria favoured by economists. Furthermore, the arguments posited by major proponents of cultural intervention can be seen as variants of traditional market failure issues that concern public policy analysts. That these arguments are, on balance, of limited relevance does not conclusively terminate the public policy debate on cultural intervention. At a minimum, however, it would appear to place the burden of the argument for cultural intervention back on the shoulders of its proponents. A growing antagonism towards restrictions on freedom of choice in broadcast television suggests that Canada's "culture vultures" may be forced to accept the challenge of justifying their actions.

Notes

[1] This discussion is drawn, in part, from Steven Globerman, "Direct Versus Indirect Aid to the Arts: A Canadian Perspective," *Journal of Cultural Economics* 4 (December 1980): 15–26.

[2] See, for example, William F. Glueck, *Strategic Management and Business Policy* (New York: McGraw-Hill, 1980), for a description of the process of strategic analysis.

[3] On this point, see Dick Netzer, *The Subsidized Muse* (Cambridge: Cambridge University Press, 1978).

[4] To some extent, of course, this is precisely what is happening. Not only cultural organizations but also Canadian-owned industrial companies, banks, communications firms, and others appeal to their "Canadianness" in public lobbying for government funding or protectionist policies. One should not be entirely surprised to find the Canada Council subsidizing the construction of a new Canadian-owned copper smelter in order to promote Canadian identity.

[5] Some evidence on this point is provided by the complaint of Canadian publisher Jack McClelland that not enough young bookwriters are coming along; the under-30 generation is turning to film scripts. This complaint was echoed by Karl Siegler of Vancouver's Talonbooks, who said he has even advertised for young authors to submit manuscripts, without avail. Interestingly, McClelland also suggested that part of the publishing industry's problem is that too many books are being published (although presumably not by McClelland and Stewart). See William French, "A Crises in Publishing? Yes and No," *The Globe and Mail* (12 June 1981), p. 21.

[6] Clearly, the policy makers would like to operate in a world where sufficient resources exist so that all cultural activities could be funded up to the point where their marginal social benefits are zero.

[7] This example illustrates the point that (in the policy jargon) strategic choice requires consideration of the organization's strengths and weaknesses. Anecdotal evidence of the artistic and, in some cases, commercial success of the Australian film industry offers an intriguing counterpoint to the Canadian experience. Recent Australian films such as *Breaker Morant* have treated predominantly Australian historical events and cultural epochs and have used Australian performers almost exclusively. While we do not offer this observation in support of government subsidies to the film industry, it does suggest that the impact of public subsidies has differed in the Australian and Canadian cases. The cause(s) of these differences is beyond the scope of this study.

[8] See J.H. Gapinski, "What Price Patronage Lost? A View From the Input Side," *Journal of Cultural Economics* 3 (June 1979): 578–86.

[9] Hopefully, the Applebaum-Hébert Commission will have something to contribute in helping policy makers understand the cultural production process.

[10] See Joseph L. Bower, "Planning and Control: Bottom Up or Top Down?" *Journal of General Management* 1 (1974): 20–31; and Michael A. Moses, "Implementation of Analytical Planning Systems," *Management Science* 21 (June 1975): 1133–43.

[11] To be sure, government censorship does exist. For example, we noted in Chapter 1 that most provinces have censorship agencies for film and other artistic performances. Our point here is that such censorship exists outside of any direct funding programs operated by these governments. Concern was also expressed about political pressures from the Prime Minister's Office imposed on the CBC, in particular Liberal accusations of a separatist bias. See Graham Fraser, "Et maintenant, quelques mots de Radio-Canada," *Macleans* 91 (23 October 1978), p. 23.

[12] Certainly the producers and investors associated with the highly successful Canadian film *Meatballs* earned substantial returns from the film. The contribution of the film to promoting the "Canadian identity" is generally considered to be non-existent.

[13] See Dorothea Katzenstein, "Film Industry's Booming in Canada Because of Investment Tax Incentives," *The Wall Street Journal* (16 June 1979), p. 13.

[14] The primary indirect influences of direct income taxes are on the work/leisure and consumption/saving trade-offs in the economy.

[15] One can presume the same for farmers, business firms, and other recipients of public subsidies.

[16] Several readers of earlier drafts noted that all governments, to a greater or lesser extent, intervene in their national cultural industries. Hence, criticism of cultural intervention in Canada may be unwarranted. While we acknowledge the ubiquity of cultural intervention, we do not see it as prime facie support for the extensive intrusion of the Canadian government into the cultural sector. Without careful analysis of intervention programs in other countries, it is not possible to determine what portion of such programs addresses legitimate market failure concerns. I would speculate, however, that cultural intervention in other countries is determined by the same political dynamics as found in Canada: a relatively small group of beneficiaries manipulate the political process to the disadvantage of the majority. If true, cultural intervention abroad offers no broad justification of similar policies at home.

Appendix

The potential for cultural intervention to reduce the overall degree of communications intensity in Canada is illustrated in Figure 1. The top half of the Figure represents hypothetical supply and demand relationships in Canadian cultural markets. Specifically, the vertical axis measures the prices per unit of foreign culture (*Pfc*) and indigenous culture (*Pcc*). The horizontal axis measures the quantities of foreign and domestic culture. For convenience we assume that the demand for foreign culture is identical to the demand for domestic culture, enabling us to use one aggregate demand curve $D = Dcc + Dfc$ to represent overall demand for culture in Canada.[1]

S_c and S_f are taken to be supply curves for indigenous and foreign culture respectively. The relationship between the two supply curves reflects the assumption that foreign producers of culture have substantially lower costs of production than domestic producers. The precise relationships shown in Figure 1 are arbitrary, however, both in the assumption of linear supply curves and in the cost advantages assumed for foreign producers.

One might want to acknowledge that the contribution of Canadian culture to *CIN* is greater than that of foreign culture. This assumption is incorporated into the top half of Figure 1 by assuming that the "effective" supply curve of Canadian culture ($\hat{S}c$) lies further to the right than the actual supply curve (*Sc*), in effect assuming that *Qcc* and *Qfc* are measured in "efficiency-units." The practical advantage of this assumption is that it enables us to combine *Qcc* and *Qfc* to obtain a "homogeneous" measure of cultural output to relate to *CIN*. A specific assumed relationship is shown in the bottom half of Figure 1. The assumed relationship incorporates the plausible (to us) notion that the contribution of an incremental unit of cultural output to communications intensity decreases as cultural output increases. Given the initial aggregate supply ($\hat{S}_c + S_f$) and demand curves, the "equilibrium" quantity of culture produced is $Qcc^1 + Qfc^1$ giving rise to communication intensity level CIN^1.

The impact of cultural intervention can be introduced through shifts in the positions of the S_c and S_f functions. The net impact on *Qcc* and

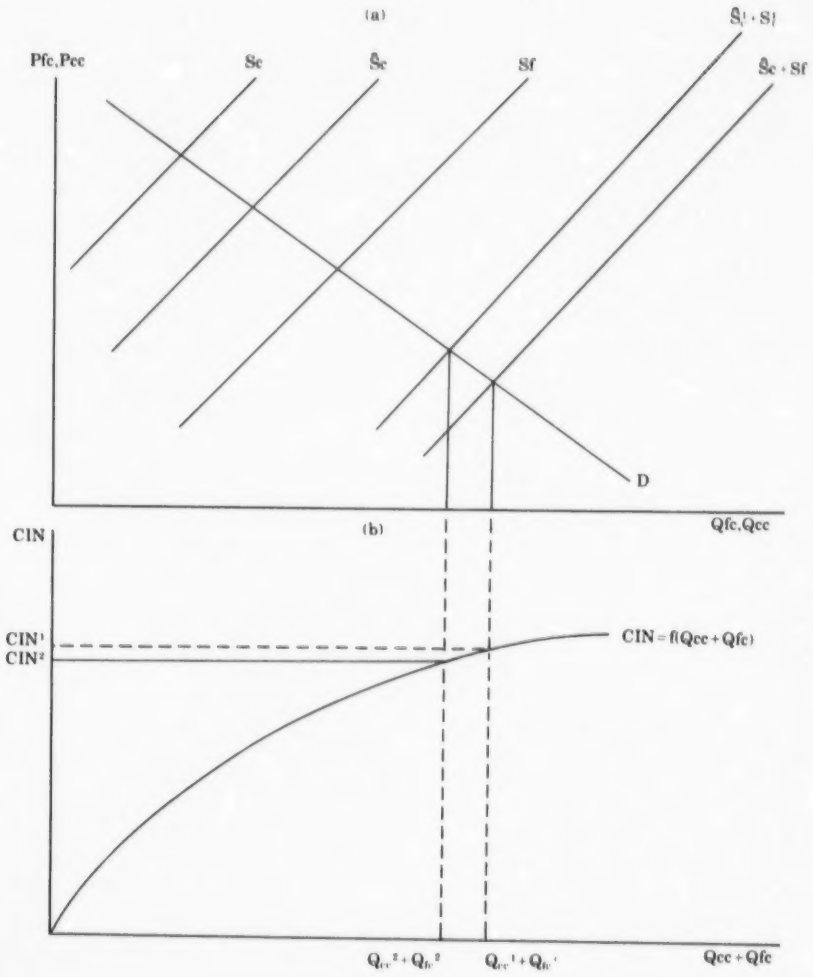
Qfc obviously depends upon the relative shifts in the two functions. The important point to note is that if S_f is assumed to lie to the right of S_c, policies that merely substitute a given proportionate increase in domestic culture for a given proportionate decrease in foreign culture will result in an overall decrease in *Qcc* + *Qfc*, and a corresponding decrease in *CIN*. This point is illustrated in Figure 1, assuming that S_c is increased by 50 per cent, while S_f is reduced by 50 per cent. The new aggregate supply curve in this case will be given as $S_c^1 + S_f^1$. The new overall quantity of culture will decrease to $Qcc^2 + Qfc^2$, and communications intensity will decline to CIN^2.

The point of this exercise is not to prove that cultural intervention must reduce communications intensity, but merely to demonstrate the possibility. The main implication is that restricting consumption of low-cost foreign culture could result in an overall decrease in communications intensity even if government promotes the consumption of higher-cost indigenous culture at the same time.

Notes

[1] Our results are not dependent upon this assumption. Indeed, available evidence cited in the body of our report suggests that the demand for U.S. culture exceeds that for indigenous culture in Canada. Incorporating this notion into Figure 1 would only strengthen our demonstrated point, albeit at the expense of needless diagrammatical clutter.

Figure 1


(a)
Pfc,Pcc
Sc
Sc
Sf
Sc + Sf
D
Qfc,Qcc
(b)
CIN
CIN¹
CIN²
CIN = f(Qcc + Qfc)
Qcc + Qfc

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The overall scope and magnitude of government intervention is not widely appreciated in Canada, but it has grown so substantially over the last two decades that government actions may very well dominate market forces in determining resource allocation in the culture industry. Several arguments are used as justification, one being that indigenous culture is necessary to the preservation of a Canadian identity.

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